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Merchandising Business I

FIN 2020

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Merchandising Business 1

FIN 2020

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Financial Management 2020
Merchandising Business 1
Student Module Booklet
Learning Technologies Branch
ISBN 0-7741-2077-0

This document is intended for	
Students	✓
Teachers	✓
Administrators	
Home Instructors	
General Public	
Other	

You may find the following Internet sites useful:

- Alberta Learning, **http://www.learning.gov.ab.ca**
- Learning Technologies Branch, **http://www.learning.gov.ab.ca/ltb**
- Learning Resources Centre, **http://www.lrc.learning.gov.ab.ca**

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Welcome!

Welcome to FIN 2020.

We hope you'll enjoy your study of
Merchandising Business 1.

CTS strands were designed to stand alone or be integrated with other strands for a customized course of studies to meet student needs. Through each strand, CTS basic competencies (knowledge, skills, and attitudes) will be identified as follows:

Careers: identify appropriate career linkages within the strand being studied

Communication: effectively present concise written, visual, and oral communications

Ethics: make judgements about whether behaviour is right or wrong on personal, community, and global levels

Innovation: recognize opportunities/problems and identify and suggest new ideas

Safety: assess potential risks, and follow personal and environmental safety procedures

Task Management: demonstrate an ability to locate and use resources and to use time effectively

Teamwork: work towards goals co-operatively, collaboratively, or independently, and acknowledge the opinions of others

Technology: effectively use technology when required

These basic competencies build daily living skills useful in a broad range of future endeavours and careers.

The eight icons that appear here indicate to students and facilitators that a basic competency has been identified in the activity offered to the students. Not all of the icons appear in each course.

Resources

- a notebook or binder in which to respond to the questions asked in this Student Module Booklet
- your local library

Note that you may be required as part of this course to do outside research and to meet with business people in your community.

Visual Cues

In addition to the Career and Technology basic competencies icons described earlier, you may find visual cues throughout the Student Module Booklet to assist you in your studies. Read the following explanations to discover what each icon prompts you to do.

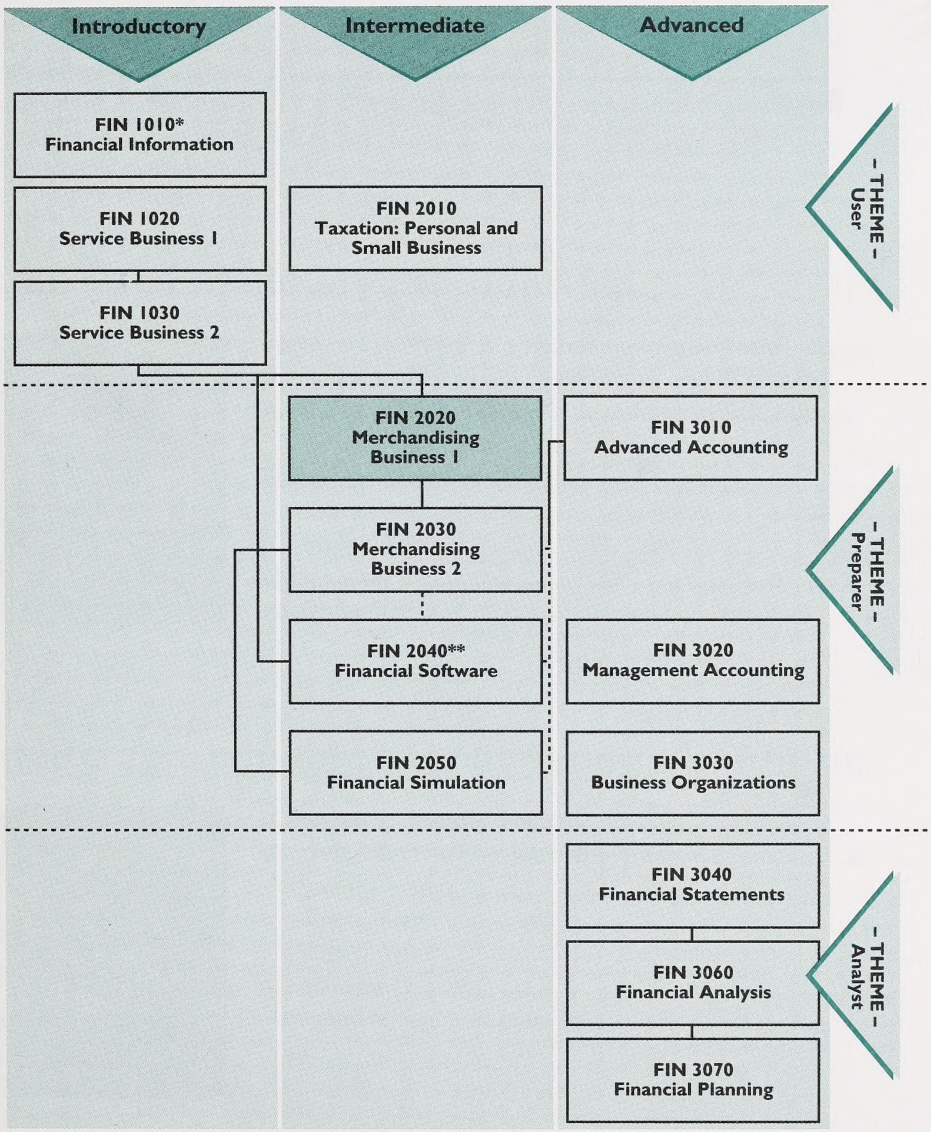
This icon indicates important information.

Access the Internet (always an optional task).

Remember that any Internet website address given in this module is subject to change.

Financial Management

O • V • E • R • V • I • E • W



* Prerequisite to all modules in strand
** Available in Macintosh and Windows versions

— Prerequisite
--- Recommended sequence

Some of these modules may not yet be in a distance learning format.

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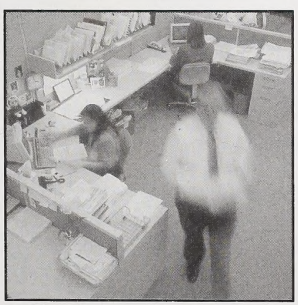

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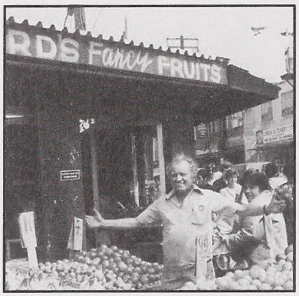

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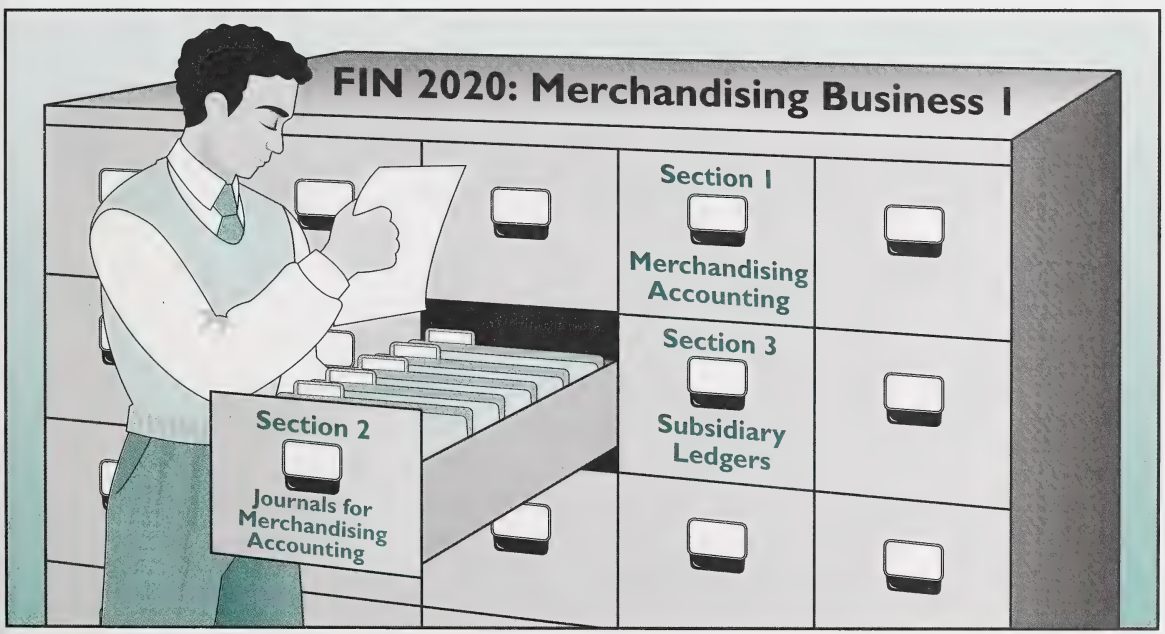
Merchandising Business 1

O • V • E • R • V • I • E • W

In previous Financial Management courses you learned about service businesses. The business transactions related to a business involved strictly in the service industry were studied.

In reality, there are few businesses involved only in the service industry. Many service businesses also provide merchandise to customers and clients. How do these businesses account for their inventory (the merchandise being sold), determine a sale price for the merchandise, and determine if a profit is being made on the merchandise being sold?

In this course—Merchandising Business 1—you will explore the financial aspects of a merchandising business, look at a variety of journals used for recording merchandise, and expand your knowledge of financial management to include subsidiary ledgers.



Assessment

The document you are presently reading is called a Student Module Booklet. It will show you, step by step, what to do and how to do it.

This course, Merchandising Business 1, is worth one credit. The course is comprised of three sections. Within each section, your work is grouped into activities. Within the activities, there are readings, explanations, and questions for you to work through. You will correct these activities yourself using the Appendix at the end of this course. These suggested answers will provide you with immediate feedback on your progress.

A portion of your grade in this course will be based on the assignments that you complete for assessment. There is one assignment after each section and a Final Course Assignment. The mark distribution is as follows:

Assignment Booklet A	
Section 1 Assignment	**24 marks**
Section 2 Assignment	**26 marks**
Assignment Booklet B	
Section 3 Assignment	**86 marks**
Assignment Booklet C	
Final Course Assignment	**84 marks**
TOTAL	**220 marks**

The CTS courses are competency based, which means that you must successfully complete each section to receive credit for the course.

In addition, you might also be required to complete a final test. The weighting for this final test will be determined by your teacher.

Strategies for Completing a Course

Organize your materials and work area before you begin: Student Module Booklet, notebook, pens, pencils, and so on. Make sure you have a quiet area in which to work, away from distractions.

Because response lines are not provided in the Student Module Booklet, you'll need a notebook or lined paper to respond to questions and complete charts. It's important to keep your lined paper handy as you work through the material and to keep your responses together in a notebook or binder for review purposes later.

To achieve success in this course, be sure to read all of the instructions carefully and work slowly and systematically through the material. Remember, it's the work you do in this Student Module Booklet that will prepare you for your assignments. Try to set realistic goals for yourself each day; and when you've set them, stick to them. Do your assignments regularly, and don't forget to review your work before handing it in. Careful work habits will greatly increase your chances for success in Financial Management.

Good luck!

Merchandising Accounting

WESTFILE INC.

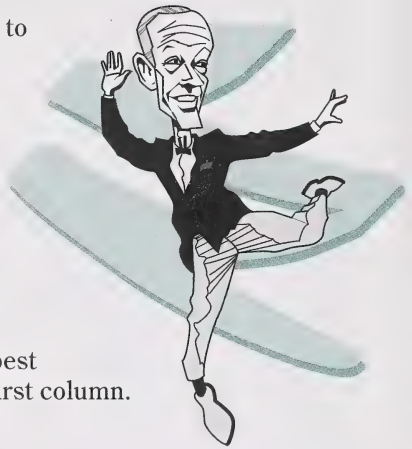
HANNA and Leisl have operated a fitness and dance centre called FitFreaks for several years. The people in their aerobics classes were always asking where they could purchase fitness wear; so, Hanna purchased a few aerobics outfits, and they sold out the first night. This encouraged them to sell fitness wear as a sideline. They soon were earning as much from the fitness wear sales as from the classes. They also discovered that they had to attend buyer conventions to buy the clothes at a discount, provide storage space for the merchandise, and keep an inventory of what was selling and what was not. FitFreaks was experiencing the business of merchandising.

In this section you will examine what a merchandising business is, the importance of inventory control, journal transactions specific to a merchandising business, and specialty transactions.

SECTION 1

ACTIVITY 1

What Is a Merchandising Business?



In the section introduction you were introduced to a business that provided fitness and dance instruction and facilities. Then the partners branched out into selling fitness wear. This changed their business from a service business to include a merchandising business.

Do question 1 to determine what you already know about merchandising businesses.

1. Place a check mark (✔) in the column that best describes the type of business listed in the first column.

Business	Service	Merchandising	Service and Merchandising
Accounting Firm			
Barber Shop			
Hardware Store			
Computer Sales and Service			
Clothing Store			

Compare your responses with those in the Appendix, Section 1: Activity 1.

A **merchandising business** is a business that buys **merchandise** and sells it at a profit: the business buys wholesale and sells retail. But what about the businesses listed in question 1? Look at each of these businesses individually.

▼

merchandising business: *a business that earns its revenue by purchasing merchandise from a supplier and selling it to a customer*

merchandise: *goods that are purchased for resale*

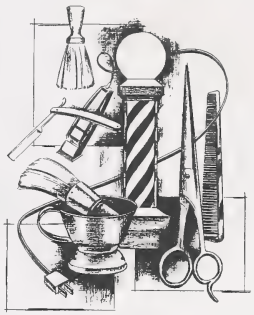
▲

▼

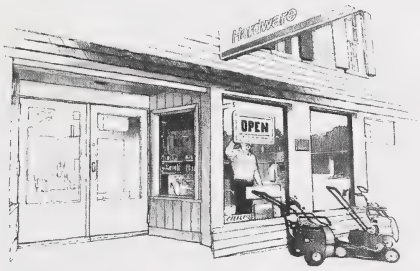
inventory: *the quantity of stock on hand that a business has for sale*

▲

Accounting Firm: Accounting is a service business. The service that the accountant provides to the client is preparation of financial statements, business consulting, and auditing. There is no physical product and no **inventory**.

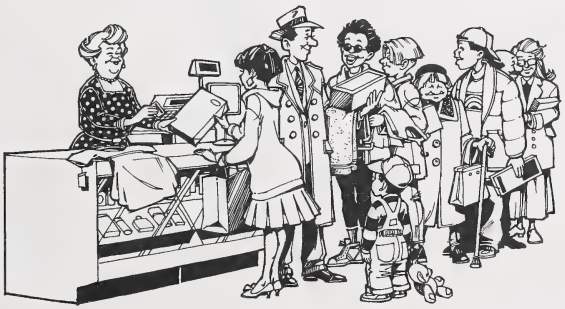


Barber Shop: Most people would categorize a barber shop as a service business. The cutting and treatment of hair and other personal services place it in the service category; however, the sale of shampoo, conditioners, and other hair products and accessories place the business in the merchandising area. Most businesses are not purely service or merchandising, but a mixture of both.



Hardware Store: A hardware store is a merchandising business. It buys merchandise wholesale and then sells the merchandise at retail. Some stores provide planning and construction services, but its primary revenue is generated from sales.

Computer Sales and Service: A computer sales outlet is primarily a merchandising business; however, due to the technical nature of computers, service is often a prime factor in the business. For example, a computer store may install software and offer a troubleshooting service to clients who buy computers from them. The majority of the revenue would be from sales.



Clothing Store: A clothing store is primarily a merchandising business. The store may offer alterations and wardrobe advice, which are services. The primary revenue is generated from sales.

The area that provides the greatest source of revenue will help to categorize the business as a service or merchandising business.

A merchandising business earns its main source of income from the sale of merchandise. The business may also provide service to its customers, but its primary focus is sales.

2. What is the inventory in the following businesses?

   a. a grocery store
   b. a gas station
   c. a sporting goods store
   d. a fast food restaurant
   e. a department store

Compare your responses with those in the Appendix, Section 1: Activity 1.

You have now been introduced to merchandising businesses. The next activity will focus on the inventory for merchandising businesses.

ACTIVITY 2

Merchandise Inventory and Purchases

A service business does not need to concern itself with inventory since the business is centred around providing a service.

A merchandising business needs to keep an appropriate amount of merchandise available for sale. Having too much merchandise on hand can be just as serious as not having enough merchandise.

Estimating the Value of Inventory

▼

physical inventory count: *unsold merchandise physically counted and valued (at cost price)*

▲

The Jean Joint purchased 100 pairs of jeans at the beginning of January. The jeans were added to the existing inventory of 179 pairs, and sales continued throughout the month. On January 17, the store purchased an additional 65 pairs of jeans from the supplier. At the end of January, a **physical inventory count** was done and showed that the store had 94 pairs of jeans on hand.

1. Use the information supplied in the preceding paragraph to determine the number of pairs of blue jeans that were sold in January.

The Jean Joint
INVENTORY COUNT
For the Month Ended January 31, 20xx

Beginning Inventory		_____
Plus: Purchases:		
January 1	_____	
January 17	_____	_____
Total Inventory Available		_____
Less: Ending Inventory		_____
Merchandise Sold		_____

Note: Inventory amounts are in individual units

2. If the Jean Joint purchased the jeans for $50 per pair, what was the total value of the merchandise sold in January?

Compare your responses with those in the Appendix, Section 1: Activity 2.

perpetual inventory system: *a system in which inventory is perpetually updated, usually using a computer terminal and a barcode scanner*

The physical inventory count is an expensive activity. Often a business will hire a company that specializes in doing inventory counts. Each item must be counted and costed at the price that the company paid for the item. This will determine the value of the inventory. A physical inventory count must be done once a year in order to calculate the taxable income of the company for income tax purposes.

Large retail stores use computers to maintain a **perpetual inventory system**. There are particular advantages to this.

- A clerk can instantly find out if a certain item is in stock.
- The quantities of inventory items can easily be maintained at optimum levels.
- Financial statements can be produced on a regular basis.

By using a perpetual inventory system, management can take rapid action to avoid or solve inventory problems.

Technology

Universal Product Code (UPC): *a code printed on consumer products that is readable by a barcode scanner*

With such a system, **Universal Product Codes (UPC)**, the black-barred squares seen on most products, can be used in conjunction with scanners to speed the checkout process. The scanner records the time of sale, and the re-ordering process is set in motion when required. These systems are quite common today.

The Flower Pot sells fresh and dried flowers, gift items, and cards. The business uses a perpetual inventory system monitored by UPC scanners. At the end of the month, the physical inventory count did not agree with the computerized records. What may have caused the difference?

▼

inventory shrinkage: *loss of inventory caused by breakage, spoilage, employee theft, and shoplifting*

▲

Over time there is normal **inventory shrinkage**, usually caused by breakage, spoilage, employee theft, and shoplifting. The amount of inventory shrinkage varies from business to business; however, if a business experiences a large discrepancy between the physical inventory and the inventory records, then management must determine what is causing the problem.

Merchandise Inventory on the Balance Sheet

▼

merchandise inventory account: *an asset account that records the amount of inventory on hand*

▲

All unsold merchandise (ending inventory) is considered an asset to a business. This ending inventory must be included on the company's balance sheet as an asset, usually in the **merchandise inventory account**.

Look at the following partial balance sheet to see where merchandise inventory would appear on the balance sheet.

The Jean Joint
BALANCE SHEET
As at June 30, 20xx

Assets		
Current Assets		
Cash	*1 409.00*	
Accounts Receivable	*14 392.00*	
Merchandise Inventory (at cost)	*5 430.00*	
Total Current Assets		*21 231.00*
Fixed Assets		
Equipment and Fixtures	*1 200.00*	

3. Diandra purchased glassware in December to sell in her store. The order cost $1000. When she received the order, a notice informed her that the price of the glassware had been increased to $1200; but since her order had been received the week the price increase came into effect, the order had been filled at the original price. Diandra costed her glassware at $1200 at the end of the month when she prepared her company balance sheet. What accounting principle did she ignore?

Compare your responses with those in the Appendix, Section 1: Activity 2.

Cost of Merchandise Sold on the Income Statement

You now know that the inventory that is **not** sold belongs on the balance sheet. The cost of the inventory that **is** sold belongs on the income statement.

The Jean Joint purchases one brand of blue jeans for $50 per pair from the supplier and sells them for $75 per pair. This leaves a profit of $25 per pair. However, it is unlikely that all items in a store cost the same or are sold at the same price. A calculation is required to determine the cost of merchandise sold.

Calculating Cost of Merchandise Sold

Cost of Beginning Inventory	+	Cost of Merchandise Purchased	−	Cost of Ending Inventory	=	Cost of Merchandise Sold
↑		↑		↑		↑
last year's inventory		total purchases for period		a physical count is taken		value of merchandise sold

Now look at the income statement for The Jean Joint.

The Jean Joint
INCOME STATEMENT
For the Month Ended January 31, 20xx

Revenue:		
Sales		*47 411.00*
Cost of Merchandise Sold:		
Inventory, January 1	*15 490.00*	
Purchases	*8 440.00*	
Cost of Merchandise Available for Sale	*23 930.00*	
Less: Inventory, January 31	*4 200.00*	
Cost of Merchandise Sold		*19 730.00*
Gross Profit		*27 681.00*
Operating Expenses:		
Building Maintenance Expense	*1 474.00*	
Utilities Expense	*632.00*	
Wages Expense	*2 000.00*	
Rent Expense	*1 600.00*	
Advertising Expense	*425.00*	
Insurance Expense	*225.00*	
Miscellaneous Expense	*549.00*	
Total Operating Expenses		*6 905.00*
Net Income		*20 776.00*

▼

gross profit: *the excess of the net sales over the cost of merchandise sold*

▲

The **gross profit** in a merchandising business is the excess of the net sales over the cost of the merchandise sold.

4. In the previous income statement, how many units are available for sale if the units available for sale at the end of January are each valued at $50?

5. a. Complete the following chart by filling in the blank spaces.

TORSTEN'S KITE COMPANY

	Year 1 (# of items)	Year 2 (# of items)	Year 3 (# of items)
Beginning Inventory	200		
+ Merchandise Purchased		700	
= Merchandise Available for Sale	800		
– Merchandise Sold		1000	800
= Ending Inventory	400		50

b. If the items cost $7 each throughout Year 3, calculate the cost of merchandise sold.

6. For each of the following, calculate the cost of merchandise sold and the gross profit. You may wish to use an electronic spreadsheet, if one is available to you.

Sales	Beginning Inventory	Purchases	Ending Inventory	Cost of Merchandise Sold	Gross Profit
185 000.00	30 000.00	72 500.00	32 500.00		
779 000.00	142 000.00	49 400.00	101 000.00		
174 000.00	34 700.00	89 200.00	41 400.00		
249 700.00	49 300.00	119 200.00	47 200.00		
302 900.00	104 600.00	81 200.00	61 300.00		

Compare your responses with those in the Appendix, Section 1: Activity 2.

The Purchases Account

purchases account: *an account where the merchandise inventory of a business is recorded*

The **purchases account** is the other account where the merchandise inventory of a business is recorded. The merchandise purchased during the fiscal period is collected in the purchases account. *Purchases* is short for *purchases of merchandise for resale*. The purchases account is found in the expense section of the ledger.

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The purchases account is used only when merchandise for sale by the company is purchased.

7. Charlene owns and operates Char's Flower Pot. Determine which items in the table would be included in her purchases account. The first two have been done for you.

Item	Purchases Account
envelopes	not included
flowers	included
potting soil	
cleaning products	
plant stands	
gift cards	
coffee pot	

Compare your responses with those in the Appendix, Section 1: Activity 2.

Activity 2 has introduced you to merchandise inventory and purchases, and showed you how these items are recorded in the balance sheet and income statement for a merchandising business.

ACTIVITY 3

Special Transactions for a Merchandising Business

When a business purchases merchandise for sale, there are special transactions that need to be accounted for in the books and records of that business. Several of these special transactions will be examined in this activity.

Sales Tax

Sales taxes are levied by the federal and provincial governments on retail sales. The seller must collect the tax from the customer and remit the tax to the government.

▼

sales tax payable account: *a liability account that is used to collect the sales tax paid by customers*

▲

The sales tax that is collected by the seller is accumulated in the **sales tax payable account**, which is found in the liabilities section of the ledger. The sales tax payable account has a credit balance.

A sale for the amount of $1000 plus 8% sales tax would be recorded as follows in a general journal.

GENERAL JOURNAL — Page 6

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx January*	*1*	*Cash (or Accounts Receivable)*		*1 080.00*		1
2			*Sales*			*1 000.00*	2
3			*Sales Tax Payable*			*80.00*	3
4			*Sold merchandise*				4
5							5

1. Record the following sales transactions on the general journal provided. Use 8% sales tax for each transaction. The first one has been done for you.

Jun. 13 Sale for $870 cash plus tax.
14 Sale on account to R. Friedel, $474 plus tax.
14 Sale on account to H. Hispick, $3794 plus tax.
15 Sale for $4393 cash plus tax.
15 Sale for $2929 cash plus tax.

GENERAL JOURNAL Page 13

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx June*	*13*	*Cash*		*939.60*		1
2			*Sales*			*870.00*	2
3			*Sales Tax Payable*			*69.60*	3
4			*Sold merchandise*				4
5							5
6							6
7							7
8							8
9							9
10							10
11							11
12							12
13							13
14							14
15							15
16							16
17							17
18							18
19							19
20							20

Compare your responses with those in the Appendix, Section 1: Activity 3.

Goods and Services Tax

Goods and Services Tax: *a 7% federal tax on all taxable goods and services in Canada*

The **Goods and Services Tax** was introduced in 1991. Some goods and services in Canada are tax exempt. (For example, consumers do not pay GST on most food items.) Most businesses in Canada are subject to the 7% Goods and Services Tax in addition to the Provincial Sales Tax. Alberta, Yukon Territory, and Northwest Territories do not have a provincial sales tax.

▼

GST charged on sales account: *a liability account that accumulates the GST charged on sales*

GST paid on purchases account: *a contra account (in this case a liability account with a debit balance) that accumulates the GST paid by the business*

▲

A business must open two accounts in its ledger to account for GST. The first is the **GST charged on sales account**. This account is similar to the sales tax payable account. It appears in the liabilities section of the ledger. It has a companion (contra) account called the **GST paid on purchases account**. All items that are purchased by a business for resale are exempt from GST. The business pays the GST to the supplier and then gets the GST back from the government. A business can subtract the balance of the GST paid on purchases account from the balance of GST charged on sales account, and remit the difference to the federal government.

2. Happy's Stereo collected $14 029.50 of GST from its customers and paid $10 394.00 of GST to its suppliers in one year. Calculate the difference between the two amounts, and explain whether Happy's Stereo must remit the difference to the federal government, or whether the government owes Happy's Stereo money.

Compare your responses with those in the Appendix, Section 1: Activity 3.

Discounts on Sales

▼

cash(sales) discount: *a discount provided by a business to encourage early payment of accounts*

▲

When sales are made on accounts, incentives are offered to encourage customers to pay their accounts promptly. One of these incentives is a **cash discount** or **sales discount**. For example, a credit sale to a customer with terms that read 2/10, n/30 means that if the customer pays within ten days, 2% of the total bill will be deducted. From the eleventh day on, the full amount must be paid within 30 days.

The sales discount account is a contra-revenue account. This means that sales discounts are deducted from total sales, along with any sales returns and allowances. The sales discount account has much in common with an expense account—both have debit balances and both are deducted from the total revenue. The sales discount account is also closed into the income summary account in the same manner as expense accounts.

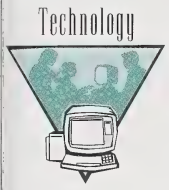
If a business owes $100 (plus 8% sales tax and 7% GST) to Super Supplies, with terms of 2/10, n/30 and the invoice is paid within ten days, then the business would owe the following:

Sale	100.00
Sales Tax	8.00
GST	7.00
Total Sale	115.00
Less 2% Discount	2.30
Amount Paid	$112.70

If the business paid in 30 days they would owe $115.00.

In this example, the discount is subtracted from the total sale. Some businesses prefer to subtract the discount from the pre-tax sale price, and then add the tax.

3. Complete the following table by calculating the discounts on the total sale prices. Assume all sales are paid within the discount period. The terms are 2/20, n/30. The sales tax is 8% and the GST is 7% in all cases.



If you have access to an electronic spreadsheet program, use it for this question. The formulas for the electronic spreadsheet are provided as follows:

A	B	C	D	E
Sale Price	Taxes	Total Sale	Discount	Discounted Total
$325.00	= A2*.15	= A2 + B2	= C2*.02	= C2 – D2

Sale Price	Taxes (8% Sales Tax and 7% GST)	Total Sale	Discount	Discounted Total
325.00				
1 490.00				
7 480.00				
1 148.00				
4 750.00				

Compare your responses with those in the Appendix, Section 1: Activity 3.

The sale is recorded at the full price. If the customer pays within the discount period, the discount is recorded.

Example: Sold merchandise on account: invoice price of $1000; terms 2/10, n/30.

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx March*	*3*	*Accounts Receivable, F. Grant*		*1 000.00*		1
2			*Sales*			*1 000.00*	2
3			*Sales on account*				3

Collected a $1000 account receivable from a customer who took a 2% discount for early payment.

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx March*	*7*	*Cash*		*980.00*		1
2			*Sales Discount*		*20.00*		2
3			*Accounts Receivable, F. Grant*			*1 000.00*	3
4			*Received payment on account*				4

Purchases Discounts

▼

purchases discount: *a cash incentive offered by suppliers to encourage early payment of accounts*

▲

When a business takes advantage of a discount offered by its suppliers, it is called a **purchases discount**. Purchases discounts are deductions from purchases. The purchases discount account has a credit balance.

Example

Carter Supply purchased merchandise valued at $480 from Devon Supply. Devon Supply offered a 3% discount if paid within fifteen days.

The initial purchase would be recorded in the general journal of Carter Supply as shown.

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx August*	*18*	*Purchases*		*480.00*		1
2			*Accounts Payable, Devon Supply*			*480.00*	2
3			*Bought merchandise on credit*				3

If Carter Supply pays the account within the discount period, it will be recorded as shown.

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx August*	*25*	*Accounts Payable, Devon Supply*		*480.00*		1
2			*Cash*			*465.60*	2
3			*Purchases Discount*			*14.40*	3
4			*Paid account, less 3% discount*				4

4. Your business purchased merchandise valued at $1200 on account from Industrial Supply on June 1. You were offered the terms 2/10, n/30, and paid the account on June 7. Record the initial purchase transaction and then the payment of the account in the general journal.

GENERAL JOURNAL Page 27

	Date		Account Title	Post Ref.	Debit	Credit	
1							1
2							2
3							3
4							4
5							5
6							6
7							7

Compare your responses with those in the Appendix, Section 1: Activity 3.

Returns and Allowances

Some businesses require detailed information about returns and allowances. They are interested in knowing why customers return items. Was the item faulty or did the customer find the item at another store at a lower price?

It makes good business sense to allow a customer to return an item that does not meet his or her needs. How do the accounting records reflect these transactions?

Sales Returns and Allowances

sales returns and allowances account: *a companion account to sales where returns and allowances are recorded*

The **sales returns and allowances account** is a contra account. That means that it has the opposite balance to its companion account (sales). The sales returns and allowances account has a debit balance. This account allows the business to track returns on particular items over particular periods of time. For example, if a store notes that a particular brand of appliance is constantly being returned, the store may decide not to carry that appliance any longer.

Following is an example of how a sales return transaction is recorded.

Example

Family Stores sold merchandise worth $600 to E. Flanders. An invoice is issued for the sale on March 2, 20xx. Sales tax is added at the rate of 8%. The accounting entry to be made by Family Stores is shown.

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx March*	*2*	*Accounts Receivable, E. Flanders*		*648.00*		1
2			*Sales*			*600.00*	2
3			*Sales Tax Payable*			*48.00*	3
4			*Sales on account*				4

Mr. Flanders returned some of the merchandise he purchased because it was defective. Family Stores issued Mr. Flanders a credit invoice for $160.00 plus sales tax of $12.80. This is recorded as shown.

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx March*	*2*	*Sales Returns and Allowances*		*160.00*		1
2			*Sales Tax Payable*		*12.80*		2
3			*Accounts Receivable, E. Flanders*			*172.80*	3
4			*Merchandise returned*				4

The effect of these entries on the accounts is shown in the following T-accounts.

Accts. Rec., E. Flanders	
648.00	
	172.80
475.20	

Sales Tax Payable	
	48.00
12.80	
	35.20

Sales	
	600.00

Sales Returns and Allowances	
160.00	

5. Orin has always debited his sales account directly for sales returns and allowances because he believes the end result is the same and he doesn't have to do the extra accounting. Explain the advantages of using a sales returns and allowances account to Orin.

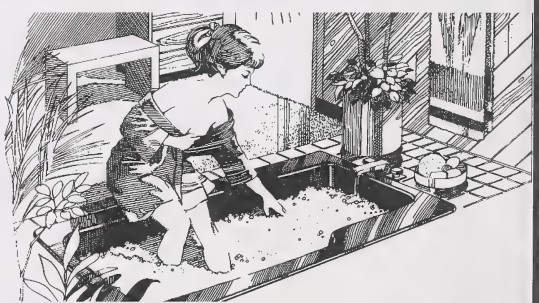
Compare your responses with those in the Appendix, Section 1: Activity 3.

Purchases Returns and Allowances

purchases returns and allowances account: *a companion account to purchases where returns and allowances are recorded*

The concept for **purchases returns and allowances accounts** is exactly the same as for sales returns and allowances accounts. If a business purchases merchandise that is faulty, it is entitled to a deduction in the amount that it owes the supplier.

Example



Family Stores received a shipment of merchandise from Crenshaw Custom Baths in the amount of $4200. One of the tubs was cracked, and Crenshaw provided Family Stores with a credit invoice for $849. The accounting entry for the initial purchase transaction would be as follows:

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx October*	*8*	*Purchases*		*4 200.00*		1
2			*Accounts Pay., Crenshaw Custom Baths*			*4 200.00*	2
3			*Purchased merchandise on account*				3

The return transaction would be recorded as follows:

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx October*	*8*	*Accounts Pay., Crenshaw Custom Baths*		*849.00*		1
2			*Purchases Returns and Allowances*			*849.00*	2
3			*Returned merchandise purchased*				3

The effect of these entries on the accounts is shown in the following T-accounts.

Purchases	
4 200.00	

Purchases Returns and Allowances	
	849.00

Accts. Pay., Crenshaw Custom Baths	
849.00	*4 200.00*
	3 351.00

Returns and Allowances on the Income Statement

The new accounts—returns and allowances—can now be added to the income statement. The income statement is more complete and reflects the true condition of the cost of merchandise sold.

The Jean Joint
INCOME STATEMENT
For the Month Ended January 31, 20xx

Revenue:			
Sales		*47 411.00*	
Less: Sales Returns and Allowances		*3 211.00*	
Net Sales			*44 200.00*
Cost of Merchandise Sold:			
Inventory, January 1, 20xx		*15 490.00*	
Purchases	*8 440.00*		
Less: Purchases Returns and Allowances	*2 900.00*		
Net Purchases		*5 540.00*	
Cost of Merchandise Available for Sale		*21 030.00*	
Less: Inventory, January 31, 20xx		*4 200.00*	
Cost of Merchandise Sold			*16 830.00*
Gross Profit			*27 370.00*
Operating Expenses:			
Building Maintenance Expense		*1 474.00*	
Utilities Expense		*632.00*	
Wages Expense		*2 000.00*	
Rent Expense		*1 600.00*	
Advertising Expense		*425.00*	
Insurance Expense		*225.00*	
Miscellaneous Expense		*549.00*	
Total Operating Expenses			*6 905.00*
Net Income			*20 465.00*

Activity 3 introduced you to special transactions for a merchandising business. These transactions included sales tax, goods and services tax, sales discounts, purchases discounts, and returns and allowances.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.

Extra Help

Operating a merchandising business is very different from operating a service business. The inventory requires special considerations, both on the income statements and the balance sheets.

1. Henrietta is a new employee of Done-Rite Meats. She has decided to order a double order of meat from the meat processing plant, because the plant is offering a 20% discount. What are some of the factors that Henrietta should consider before increasing her inventory?

2. Gordon's Shoes is holding a "Pre-Inventory Sale." Why would a business hold a sale right before having a physical inventory count?

3. Match the terms in Column A with the definitions in Column B. Write the letter for each term in the blank beside the correct definition.

Column A	Column B
a. gross profit	_____ loss of inventory due to breakage, spoilage, employee theft, or shoplifting
b. GST	_____ a companion account to sales where returns are recorded
c. sales tax payable	_____ inventory record that is constantly updated
d. inventory shrinkage	_____ a 7% federal tax introduced in 1991
e. perpetual inventory	_____ a discount provided by a business to encourage early payment
f. UPC symbol	_____ a record of the quantity of stock on hand that a business has for sale
g. inventory	_____ goods that are purchased for resale
h. merchandise	

i. sales discount

j. sales returns and allowances

_____ a code printed on consumer products

_____ a liability account used to collect sales tax

_____ excess of net sales over the cost of the merchandise sold

Compare your responses with those in the Appendix, Section 1: Extra Help.

Enrichment

1. Geraldine's is a retail store. In 20xx, the company had a gross sales revenue of $3 475 000, cost of merchandise sold of $1 101 000, and sales returns and allowances of $54 000. Calculate the following amounts. Show your calculations.

   a. net sales
   b. gross profit

2. Martha May's is a small general store located in northern Alberta. Every January 1, Martha and her husband close the store and take a complete physical inventory. Last year, the inventory amounted to $1600; this year it totalled $2500. During the current year, the business recorded sales of $69 000 and purchases of $34 000.

   a. Calculate the cost of merchandise sold for the current year.

   b. Explain why a small business such as this might use this inventory system.

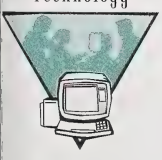
   c. Explain some of the disadvantages of Martha May's system, as compared to a larger business such as a department store.

Communication

3. Contact a local business and inquire as to the system of inventory control used by the business. Include the following questions:

   - How do you control your inventory?
   - Do you use a computer program to keep track of your inventory? If so, what kind is it and how does it operate?
   - Do you offer sales discounts to your customers? If so, how do you record them in your business?
   - Do you have any methods of controlling inventory shrinkage in your business? For example, if an item is broken, does anyone have to account for the breakage?

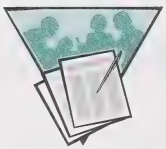
Technology



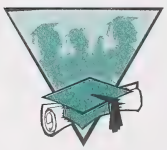
Using the information you obtained from the business you contacted, prepare a report on the system of inventory control.

If you have access to the Internet, you may be able to conduct your research using a bulletin board on the Internet. You can post your question to several companies and seek responses electronically.

Communication



Careers



4. Contact an inventory service (under the heading "Inventory Service" in the Yellow Pages™) and ask about the services they offer. Include the following questions:

   - What kinds of technology do the agents use to gather information?
   - What kinds of skills do employees of inventory services possess?
   - What is the average charge for the inventory count for a business?
   - What is the busiest time of the year?

   Using the information you obtained from the business you contacted, prepare a report on your findings.

Compare your responses with those in the Appendix, Section 1: Enrichment.

CONCLUSION

In this section you examined the operations of a merchandising business and contrasted them with the activities of a service business. You were introduced to inventory practices and purchases, methods of calculating cost of merchandise sold, and methods of calculating the value of the inventory. Finally, you examined special transactions for a merchandising business, including sales tax, goods and services tax, sales discounts, purchases discounts, and returns and allowances.

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Now you have become more familiar with what a merchandising business is and how it works. In the next section, you will be introduced to the journal systems involved in merchandising accounting.

ASSIGNMENT

Turn to Assignment Booklet A and do the assignment for Section 1.

Journals for Merchandising Accounting

It was Juanita's first day as the accounts payable clerk at Inesco Supplies. She was receiving instructions and advice by her supervisor, Trevor. Trevor showed Juanita the accounts payable ledger and the cash payments journal.

"This is the specialized journal you will be using, Juanita."

Juanita gulped. She had worked for a small company where a synoptic journal was used. Now she would have to learn a new system, or so she thought. Trevor saw the look on Juanita's face.

"Relax, Juanita! Even though different businesses use different journals and ledgers, the accounting principles are the same. Debits still equal credits, and posting to the ledgers is similar. Now, let's get to work!"

In this section you will compare the advantages and disadvantages of using various journals. You will also analyse and record business transactions in special journals.

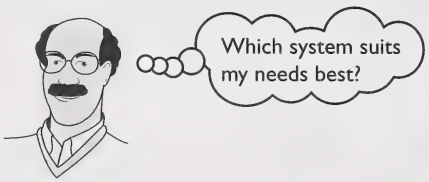
SECTION 2

ACTIVITY 1

Journal Systems

There are a variety of tools used by accountants to record financial transactions. You will examine three journal systems in this activity:

- the general journal system
- the synoptic journal system
- the five-journal system



The General Journal System

▼

general journal: *a two-column book in which accounting entries are recorded in the order in which they occur*

▲

If you have taken introductory accounting courses or FIN 1020 or FIN 1030, you have been introduced to the **general journal**. The general journal is a simple, two-column journal that utilizes at least one line for the debit entry and at least one line for the credit entry. All journal transactions are recorded in this one journal using the single journal system.

A sample of a general journal is shown.

GENERAL JOURNAL Page 5

	Date		Account Title	Post Ref.	Debit	Credit	
1	20xx October	1	*Cash*		*400.00*		1
2			*Sales*			*400.00*	2
3			*Cash sales*				3
4		1	*Supplies*		*75.00*		4
5			*Cash*			*75.00*	5
6			*Bought supplies*				6

Each individual line in the general journal is posted to the ledger for each transaction.

One of the advantages of the general journal system is its simplicity. All transactions are recorded in the same place in chronological order. One disadvantage of the general journal system is that it is tedious to enter the common entries (cash, sales, and purchases) over and over again. The journal becomes very long, and time and space are used to excess. Also, only one person can enter transactions at any given time.

▼

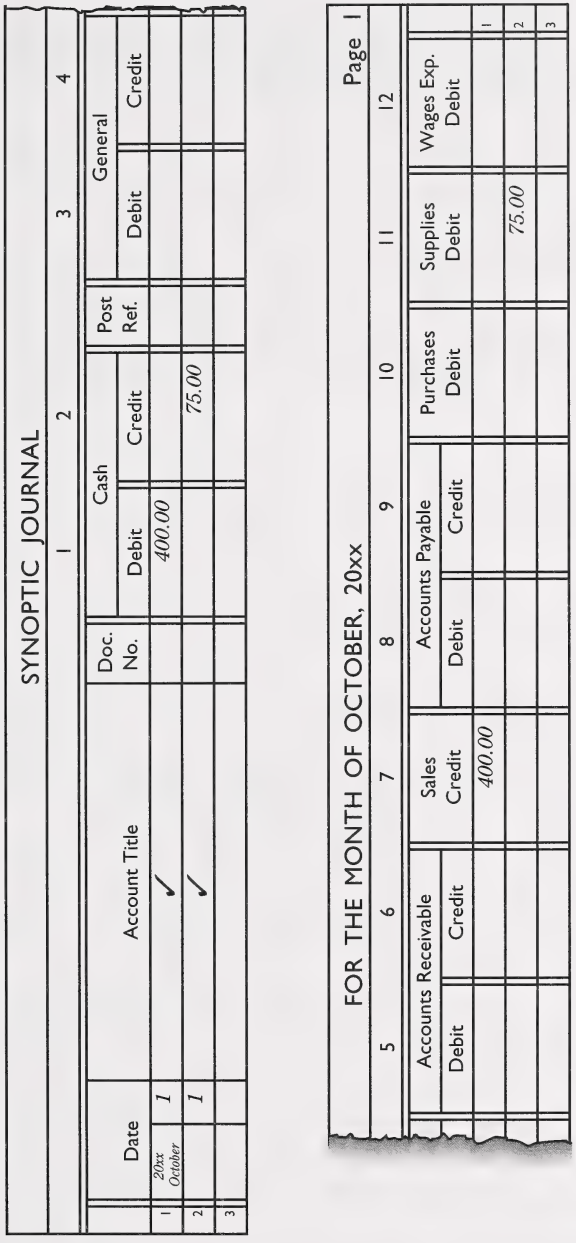
synoptic journal: *a multi-columned journal with a number of special columns and two general columns*

▲

The Synoptic Journal System

A small business that has standardized daily transactions may decide to use a **synoptic journal** with specialized columns for the business transactions.

A sample of a synoptic journal is shown.



SYNOPTIC JOURNAL

FOR THE MONTH OF OCTOBER, 20xx — Page 1

	Date		Account Title	Doc. No.	Cash		Post Ref.	General		Accounts Receivable		Sales	Accounts Payable		Purchases	Supplies	Wages Exp.
					Debit	Credit		Debit	Credit	Debit	Credit	Credit	Debit	Credit	Debit	Debit	Debit
1	20xx October	1	✓		400.00							400.00					
2		1	✓			75.00										75.00	
3																	

Notice the special column headings. A synoptic journal doesn't need to be identical to the journal shown here. Businesses design the synoptic journal to meet their own needs.

The concept of the synoptic journal system is to have special columns to help sort items during the journalizing process. This saves time when entries are posted to the ledger because only the totals of the special columns are posted. No explanations are needed in the synoptic journal.

The totals of the special columns in the synoptic journal, not the individual amounts, are posted to the ledger.

For example, if there are thirty items in the cash debit column, only the total of that column is posted. A synoptic journal is also called a *combination journal* or a *multi-columnar journal.*

Notice the check mark (✔) in the account title column. When each account involved in a transaction has a special column, a check mark is used in the account title and Post Ref. columns. A check mark in the Post Ref. column shows the amount is posted as part of a column total. The check mark saves time for the accountant; it replaces the account title name.

It is possible to create a synoptic journal with a special column for each type of entry, but this would make the synoptic journal too cumbersome. The general debit and general credit columns are used for infrequent transactions that do not fit into any of the special columns provided.

1. The following transactions occurred in the month of June 20xx for Glacier Bottled Water.

June 4 Cash sale of $397.
Ticket #59

4 Sale on account to Rennie Wadsworth for $914.
Invoice #147

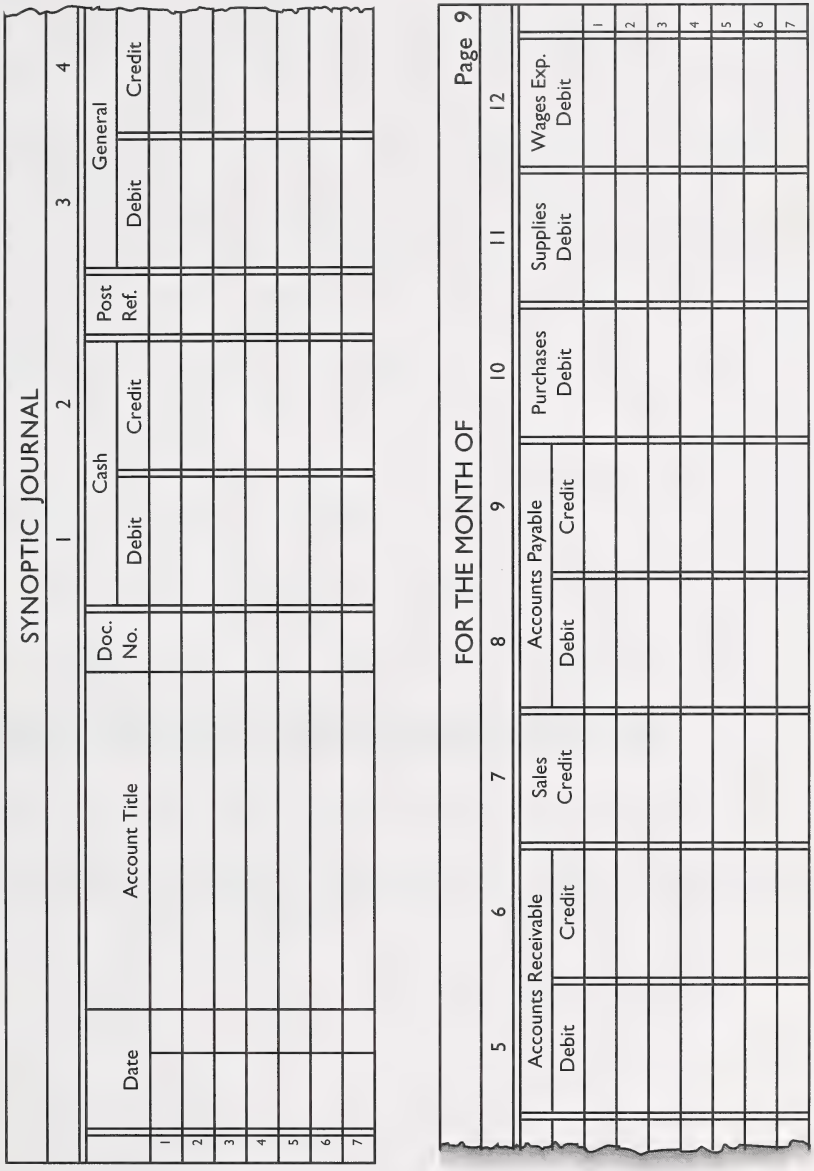
5 Paid rent for June, $1800.
Cheque #91

a. Journalize the transactions on page 9 of the general journal.

GENERAL JOURNAL Page 9

	Date	Account Title	Post Ref.	Debit	Credit	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9

b. Now, journalize the transactions on page 9 of the synoptic journal.



Compare your responses with those in the Appendix, Section 2: Activity 1.

Advantages of the synoptic journal include the speed with which entries can be journalized, the reduced space the entries use, and the ease of viewing the total sales, purchases, and cash debits or credits for a period of time. If two or more transactions happen on the same day, and if they all have one account in common, you can use a combined entry to record the transactions. The main disadvantage of the synoptic journal is that only one person can enter transactions at any given time.

Developing an Electronic Synoptic Journal

If you have access to an electronic spreadsheet program, such as Microsoft® *Excel*, an electronic synoptic journal can be established. Look at the following sample.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1	Synoptic Journal											For the Month of June, 20xx					Page 9
2				Doc.	Post	Cash		General		Accts. Rec.		Sales	Accts. Pay.		Purchases	Supplies	Wages Exp.
3	Date		Account Title	No.	Ref.	Debit	Credit	Debit	Credit	Debit	Credit	Credit	Debit	Credit	Debit	Debit	Debit
4	June 20xx	4	✔	59		397.00						397.00					
5		4	Rennie Wadsworth	147						914.00		914.00					
6		5	Rent Expense	91			1800.00	1800.00									
24																	
25			Total			1815.00	3450.00	1800.00	100.00	2510.00	980.00	4620.00	650.00	1000.00	1725.00	150.00	1500.00
26																	
27			Debits				10150.00										
28			Credits				10150.00										

2. Notice the debits and the credits at the bottom of the preceding spreadsheet. These two figures provide an accountant with a "running balance" of the journal.

   a. What columns are included in the debit balance?
   b. What columns are included in the credit balance?

3. What is the main advantage of this "running balance" to an accountant?

Compare your responses with those in the Appendix, Section 2: Activity 1.

You have now examined the general journal and the synoptic journal. There is a third system available to accountants. It will be discussed in Activity 2.

ACTIVITY 2

The Five-Journal System

The general journal system is simple to use, but time-consuming. The synoptic journal system is more sophisticated, but still cumbersome. With either system, only one individual can make accounting entries at a time. Both systems would be suitable for a small business; however, most businesses soon grow to where more than one person is involved in the accounting process. Systems that use more than one journal have been developed.

five-journal system: *a system where five separate journals are used, each journal for specific transactions*

The format of the **five-journal system** is shown in the following chart. The chart shows the journal used for each type of transaction.

Source Documents	Transactions	Journals
• cash sales • cash register tapes • bank credit memos	increase in bank balance (cash increase)	cash receipts journal
• sales on account • credit invoices issued	all sales on account (no cash)	sales journal
• cheques written • bank debit memos	decrease in bank balance (cash decrease)	cash payments journal
• purchases invoices • credit invoices	buying of any goods or services on account (no cash)	purchases journal
• miscellaneous source documents	anything that does not fit in the other journals (no cash)	general journal

The main advantage of the five-journal system is that it can have multiple users at one time. In a large business, an individual accounting clerk might specialize as the accounts payable clerk, handling all transactions involving accounts owed by the business. When source documents arrive in the accounting department, they are sorted and distributed to the appropriate individuals.

1. What are the advantages of the specialized journal system to a business and to an individual working in the area of financial management?

Compare your responses with those in the Appendix, Section 2: Activity 2.

Now look at each individual journal in detail.

cash receipts journal: *a journal used when cash is received for any reason by the business*

The Cash Receipts Journal

All transactions involving the receipt of cash are recorded in the **cash receipts journal**. Two common sources of cash receipts are cash sales and cash received from customers on account. Special columns are provided for these two cash receipt sources. A general column is also provided to accommodate those transactions which occur infrequently.

The receipt of cash always results in a debit to cash and a credit to some other account or accounts.

Look at the following cash receipts journal.

CASH RECEIPTS JOURNAL — Page 2

	Date		Account Title		Doc. No.	Post Ref.	Cash Debit	Sales Credit	Sales Tax Payable Credit	Accounts Receivable Credit	General Credit	
1	20xx December	1		✓	SR650		57.78	54.00	3.78			1
2		2	R. Jamha		CR122		85.60			85.60		2
3		3	Interest Income		CM29		120.00				120.00	3
4		4		✓	SR651		157.83	147.50	10.33			4
5		5	D. Riviere		CR123		96.30			96.30		5
6												6

The transactions shown in the cash receipts journal are explained as follows:

Dec. 1 A cash sale was made in the amount of $54.00 plus $3.78 sales tax (7%). The check mark (✔) appears in the account title column because both parts of the transaction are recorded in special columns. The document number (SR650) is a sales receipt number.

2 R. Jamha purchased merchandise on account earlier. He has now paid his account in the amount of $85.60 cash; therefore, the accounts receivable is credited. The document number (CR122) is a cash receipt number.

3 Interest income has been earned and the bank has placed the sum of $120 in the company's bank account. The document number (CM29) is a credit memo number. Since cash is being received, the transaction must appear in the cash receipts journal.

4 This transaction is similar to the December 1 transaction: a cash sale in the amount of $147.50 plus $10.33 sales tax (7%).

5 This transaction is similar to the December 2 transaction: a payment of an accounts receivable in the amount of $96.30.

2. The following are some transactions for Paulson's Food Mart. Enter the transactions on page 6 of the cash receipts journal for April 20xx.

Apr. 4 Received $230 from V. Chang to apply to his account. Cash receipt #144

7 Sold old office equipment for $100 cash. Cash receipt #145

15 Cash sales of $1600 plus 7% sales tax. Sales receipt #409

17 Received $150 cash from K. Stalingard to apply to her account. Cash receipt #146

23 Received a cheque for $50 from R. Brinkley on account. Cash receipt #147

28 F. Woloshyn paid $120 cash to apply to his account. Cash receipt #148

29 The bank credited Paulson's Food Mart $48 for interest earned on the chequing account. Memo #49

CASH RECEIPTS JOURNAL — Page

	Date	Account Title	Doc. No.	Post Ref.	Cash Debit	Sales Credit	Sales Tax Payable Credit	Accounts Receivable Credit	General Credit
1									
2									
3									
4									
5									
6									
7									
8									

Compare your responses with those in the Appendix, Section 2: Activity 2.

The Cash Payments Journal

cash payments journal: *a journal used when cash is paid out by the business for any reason*

All payment of cash are recorded in the **cash payments journal**. Another common name for this journal is the *cash disbursements journal*. Common transactions involving the payment of cash by the business are payments to creditors on account, payment of operating expenses, and cash purchases of merchandise.

CASH PAYMENTS JOURNAL — Page 9

	Date		Account Title	Chq. No.	Post Ref.	Cash Credit	General Debit	Accounts Payable Debit	Purchases Discount Credit	
1	20xx March	1	*Rent Expense*	*404*		*1 200.00*	*1 200.00*			1
2		2	*Supplies*	*405*		*43.50*	*43.50*			2
3		3	*Brown Bros. Wholesale*	*406*		*915.00*		*915.00*		3
4		4	*Miscellaneous Expense*	*407*		*10.50*	*10.50*			4
5		5	*Alexander & Co.*	*408*		*1 100.00*		*1 100.00*		5
6		6	*Wages Expense*	*409*		*1 700.00*	*1 700.00*			6
7										7

A sample of a cash payments journal along with the details of the transactions are shown.

Mar. 1 Paid $1200 rent for the month of March. Cheque #404

2 Purchased supplies for $43.50. Cheque #405

3 Paid Brown Bros. Wholesale the sum of $915 on account. Cheque #406

4 Purchased coffee for the office (miscellaneous expense) for $10.50. Cheque #407

5 Paid Alexander & Co. the sum of $1100 on account. Cheque #408

6 Paid salary of $1700 to the clerk (wages expense). Cheque #409

3. The following are some transactions for Paulson's Food Mart. Enter the transactions on page 8 of the cash payments journal for April 20xx.

Apr. 2 Bought new office equipment for $850 cash. Cheque #841

6 Paid $1550 rent for the month. Cheque #842

14 Issued a cheque to Acme Merchandising Ltd. in payment of accounts payable outstanding, $1494.50. Cheque #843

18 Paid $250 for advertising in the local newspaper. Cheque #844

24 Paid $859 to Alsask Co. in payment of accounts payable outstanding. Cheque #845

30 Issued a cheque for $3500 to pay the employees their salaries. Cheque #846

CASH PAYMENTS JOURNAL — Page

	Date	Account Title	Chq. No.	Post Ref.	Cash Credit	General Debit	Accounts Payable Debit	Purchases Discount Credit	
1									1
2									2
3									3
4									4
5									5
6									6
7									7

Compare your responses with those in the Appendix, Section 2: Activity 2.

ales journal: *a ournal used when erchandise is old to a customer n account*

The Sales Journal

The **sales journal** is used whenever the business sells merchandise to a customer on credit (on account). A sale of merchandise for cash would be recorded in the cash receipts journal. The sales journal has a column for the sales invoice number. Special columns are provided for recording each aspect of the sale.

One advantage of the sales journal is that it saves space. Each entry is recorded on a single line and consists of a debit to a customer's account, the offsetting credit to the sales account, and the credit to the sales tax payable account. Much time is saved because only one line is used. Posting to the ledger is also streamlined because only the total of the sales journal is posted, and the individual accounts are posted to the subsidiary ledger. The subsidiary ledger will be examined in Section 3 of this module.

The following is an example of a sales journal.

SALES JOURNAL Page 3

	Date		Account Debited	Inv. No.	Post Ref.	Accounts Receivable Debit	Sales Credit	Sales Tax Payable Credit	
1	*20xx April*	*1*	*B. Flynn*	*502*		*437.63*	*409.00*	*28.63*	1
2		*2*	*R. Kangas*	*503*		*860.28*	*804.00*	*56.28*	2
3		*3*	*R. Peters*	*504*		*1 529.03*	*1 429.00*	*100.03*	3
4		*4*	*B. Chang*	*505*		*647.35*	*605.00*	*42.35*	4
5		*5*	*C. Carollas*	*506*		*137.50*	*128.50*	*9.00*	5
6									6

The transactions shown in the sales journal are all sales on account. Also, note that the sales tax payable is recorded in a separate column. The total of the sales tax payable column will be forwarded to the federal government periodically during the year.

4. The following are some transactions for Paulson's Food Mart. Enter the transactions on page 22 of the sales journal for April 20xx. Note that the sales tax for the transactions is 7%.

   Apr. 1 Sold merchandise on credit to V. Brinkley, $325 plus tax. Invoice #701

   9 D. O'Brien bought merchandise valued at $300 plus tax on account. Invoice #702

   13 Sold merchandise valued at $190 plus tax to D. Zappata on account. Invoice #703

   23 R. Chang purchased merchandise from Paulson's Food Mart. He put the sale, $450 plus tax, on his account. Invoice #704

   27 Sale of $900 plus tax on credit to K. Silvester. Invoice #705

   30 Sale of $810 plus tax on account to J. Priestly. Invoice #706

SALES JOURNAL								Page
	Date		Account Debited	Inv. No.	Post Ref.	Accounts Receivable Debit	Sales Credit	Sales Tax Payable Credit	
1									1
2									2
3									3
4									4
5									5
6									6
7									7

Compare your responses with those in the Appendix, Section 2: Activity 2.

The Purchases Journal

purchases journal: *a journal used when merchandise is purchased from a supplier on account*

The **purchases journal** is used to record purchases of merchandise on credit. Purchases of merchandise for cash will be recorded in the cash payments journal. Purchases of merchandise on credit always result in the same amount being debited; therefore, there is only one column that includes the purchases debit and the accounts payable credit.

The following is a sample of a purchases journal.

PURCHASES JOURNAL						Page 9
	Date		Account Credited	Post Ref.	Purchases Dr./Accts. Payable Cr.	
1	*20xx December*	*1*	*Brown Bros. Wholesale*		*466.36*	1
2		*2*	*Acme Wholesalers Ltd.*		*447.75*	2
3		*3*	*Hamilton Wholesale Ltd.*		*620.64*	3
4						4
5						5
6						6
7						7

5. Add the following transactions for December to the previous purchases journal.

   Dec. 5 Purchased merchandise on account from Bartlett Bros. for $800.

   16 Received an invoice from ABC Company for merchandise received last week, $2300.

   17 Bought $1250 of merchandise on account from Omni Marketing Co.

Compare your responses with those in the Appendix, Section 2: Activity 2.

The General Journal

When specific journals are used, very few transactions will not fit into one special journal or another. To accommodate these few transactions, a general journal is used. Some examples of such transactions are as follows:

- sales returns not involving cash
- purchases returns not involving cash
- supplies bought on account
- correcting entries

The following is a sample of a general journal.

GENERAL JOURNAL — Page 13

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx June*	*13*	*Supplies*		*30.00*		1
2			*Accounts Payable, A. Wright*			*30.00*	2
3			*Supplies bought on credit*				3
4		*14*	*Sales Returns and Allowances*		*12.50*		4
5			*Accounts Receivable, T. Jeffords*			*12.50*	5
6			*Goods returned, credit memo #13*				6
7		*16*	*Account Receivable, R. Wilson*		*74.32*		7
8			*Sales*			*74.32*	8
9			*To correct December sales entry*				9

6. Following are some transactions for Paulson's Food Mart. Enter the transactions on page 3 of the general journal for April 20xx.

Apr. 5 Bought supplies on account from Office Supply Co., $350.

10 P. Robinson returned goods to Paulson's because they were damaged. His account was credited $25.

19 Paulson's returned unwanted merchandise to ABC Co. The goods had been damaged in transit. ABC Co. credited Paulson's account $125.

27 Discovered that $100 worth of supplies purchased last month had been debited to the purchases account in error.

28 Bought office equipment on credit from XYZ Co., $925.

30 The owner, J. Paulson, took $300 worth of merchandise home for personal use.

GENERAL JOURNAL Page

	Date	Account Title	Post Ref.	Debit	Credit	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
13						13
14						14
15						15
16						16
17						17
18						18
19						19
20						20

7. Decide in which journal each of the following transactions would be recorded. Put a check mark (✔) in the appropriate column.

Transactions	Cash Payments Journal	Cash Receipts Journal	Sales Journal	Purhcases Journal	General Journal
purchased merchandise on account					
purchased merchandise for cash					
purchased supplies for cash					
purchased supplies on account					
sold merchandise for cash					
sold merchandise on account					

an error was made and a correction is required

owner takes merchandise for personal use

Compare your responses with those in the Appendix, Section 2: Activity 2.

Activity 2 introduced you to the five-journal system of recording journal entries. The five-journal system includes the cash receipts journal, the cash payments journal, the sales journal, the purchases journal, and the general journal.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.

Extra Help

The general journal has two columns: one for the debit portion of the entry and on for the credit portion of the entry. Regardless of the type of journal used, the accounting theory is the same—debits must equal credits.

The synoptic journal provides one large journal (similar to a computer spreadshee to record entries, generally using only one line for each transaction.

1. Record the following transactions in the synoptic journal provided. If you have prepared a synoptic journal using a computer and spreadsheet program, you m use it instead.

   Jun. 1 Cash sales for the day, $485. Cash register tape T1

   2 Purchased supplies for $385 cash. Cheque #491

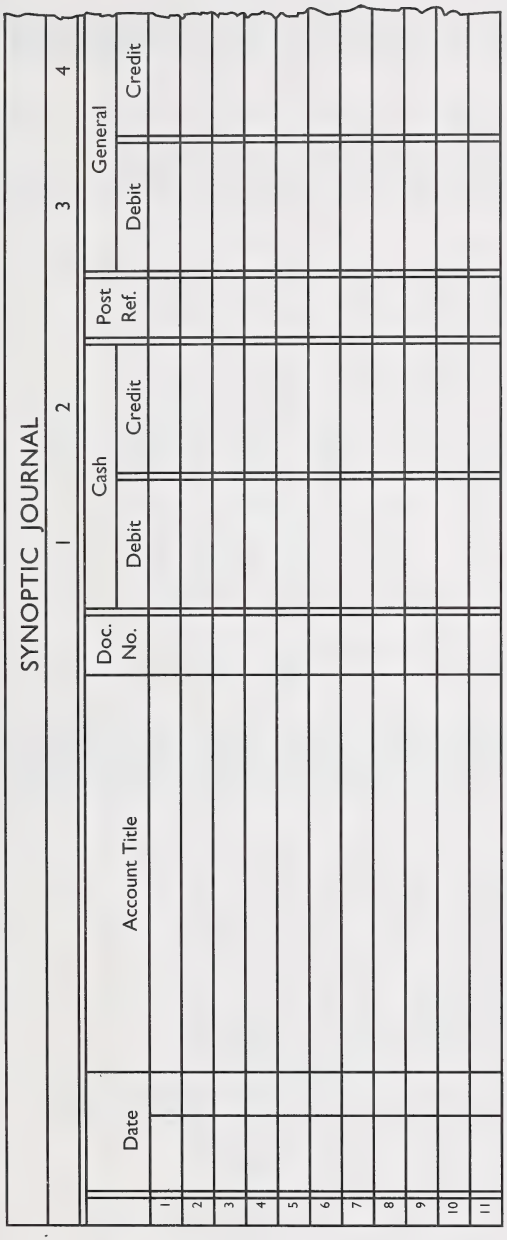
   2 Purchased merchandise on account from Causeway Wholesale, $849.50

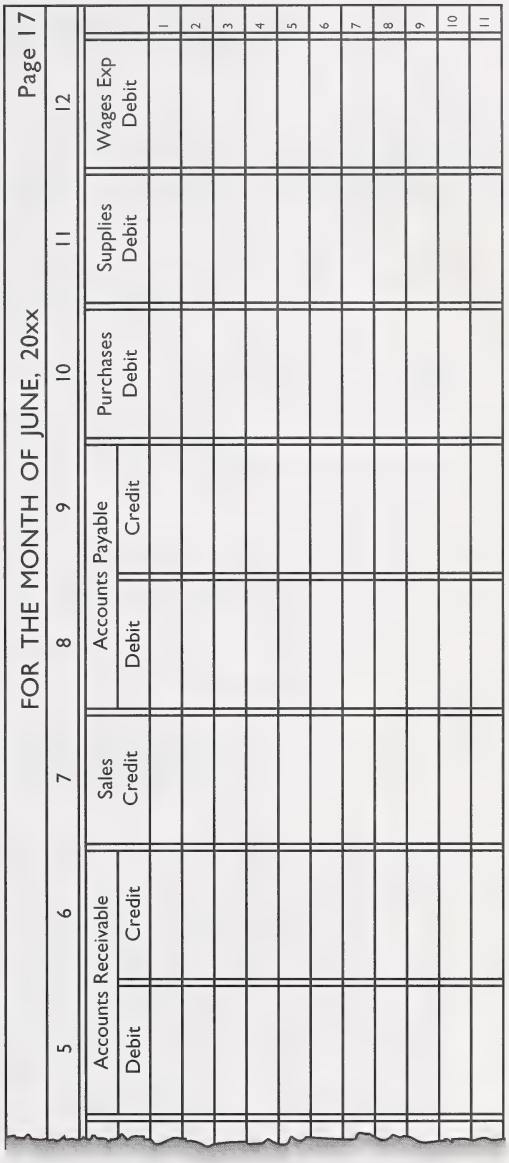
   3 Purchased merchandise for $600 cash. Cheque #492

   4 Received payment from Arlo Lancer on account, $609.50. Receipt #7

   4 Received payment from D. Arthurs on account, $444.29. Receipt #7

   5 Paid salaries for first week of June, $1850. Cheque #493





2. Total and prove the journal in question 1 as at June 5, 20xx.

3. Determine which journals the following transactions would be recorded in.

   a. Received a credit invoice.
   b. Wrote a cheque.
   c. Made a sale on account.
   d. Issued a credit invoice.
   e. Made a cash sale.

Compare your responses with those in the Appendix, Section 2: Extra Help.

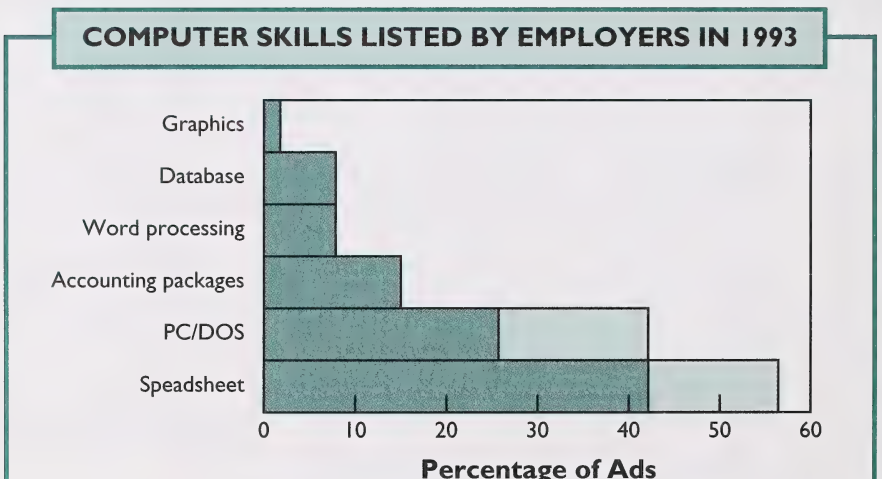
Technology

1. If you have access to a computerized accounting program (such as *Simply Accounting*™), open the program and look at how the journals are established. If you do not have access to a package, contact a local accountant and determine which accounting package is used. Use this information to answer the following questions.

   - What journals do computerized accounting packages use: general, synoptic, or the five-journal system?
   - How are entries made electronically?
   - What kinds of skills do the individuals who use the computerized packages have? Are they formally trained in computerized accounting?
   - What is the cost of the accounting package?

   Compile your results in a report. You may write the report by hand or do it on a computer if you have access to a computer with a word processing program.

2. Look at the following graph. This graph relates to accountants in public practice.



[1]

[1] *Journal of Education for Business*, Vol. 70, No. 3, p. 133, January/February 1995. Reprinted with permission of The Helen Dwight Reid Educational Foundation. Published by Heldref Publications, 1319 18th St. N.W. Washington, D.C. 20036–1802. Copyright 1995.

a. In which area of computer skills do you need to be strongest for success as an accountant?

b. Which area of computer skills has the least emphasis?

Compare your responses with those in the Appendix, Section 2: Enrichment.

CONCLUSION

In this section you examined three journal systems—the general journal system, the synoptic journal system, and the five-journal system—and determined which journal system best suits a business. You studied the advantages and disadvantages of these systems of accounting, and analysed and recorded business transactions.

In the five-journal system, you worked with special journals (cash receipts journal, cash payments journal, sales journal, purchases journal, and general journal) and discovered the purpose of each journal. Knowing how to use these special journals will make the transition from manual accounting to electronic accounting (discussed in FIN 2040) more efficient and effective.

At the start of this section you were introduced to Juanita and her fear of changing accounting systems. Now that you have completed this section, do you think the transition from one journal system to another is difficult?

ASSIGNMENT

Turn to Assignment Booklet A and do the assignment for Section 2.

Subsidiary Ledgers

WESTFILE INC.

GAYLORD, the owner of a small fruit stand, worked late into the night recording the accounts payable for his business. The general ledger was becoming thicker and thicker as his business grew.

Gaylord's 17-year-old daughter, Trina, came in to the office and offered to help her dad do the accounts payable.

"Let's separate the accounts payable into a separate folder, Dad. That way I can work on recording them, and when I get the total I'll tell you that amount and you can just enter it in your general ledger."

Gaylord scratched his head. What a great idea his daughter had! Gaylord pulled out all the accounts payable ledger cards, passed them over to his daughter, and then decided that he would do the same thing with the accounts receivable. His general ledger was now slim and manageable.

In this section you will establish subsidiary ledgers for accounts receivable and accounts payable for a merchandising business. You will also discover how to post to the subsidiary ledgers and prepare schedules of accounts payable and accounts receivable.

SECTION 3

ACTIVITY 1

What Is a Subsidiary Ledger?

Up to this point, all transactions involving accounts receivable from customers and accounts payable to creditors have been posted to a single account called accounts receivable or accounts payable. This has been done in order to simplify explanations as you learn accounting principles; however, this procedure is unsatisfactory because it is difficult to look up the amounts from individual customers.

A business with a large number of customers and creditors will maintain three separate ledgers:

- the general ledger
- the accounts receivable subsidiary ledger (**accounts receivable ledger**)
- the accounts payable subsidiary ledger (**accounts payable ledger**)

Each customer will have an account in the accounts receivable ledger. Each creditor will have an account in the accounts payable ledger. The original accounts receivable account and the accounts payable account that you are accustomed to using remain in the general ledger. The main accounts receivable and accounts payable in the general ledger are referred to as the control accounts. When all posting is completed, the balance of the **accounts receivable control** account in the general ledger will equal the total of all the individual customer accounts in the accounts receivable subsidiary ledger. Also, the **accounts payable control** account balance will equal the total of all the individual creditor accounts when all posting is completed.

▼

accounts receivable ledger: *a subsidiary ledger containing all the accounts receivable accounts and their individual balances*

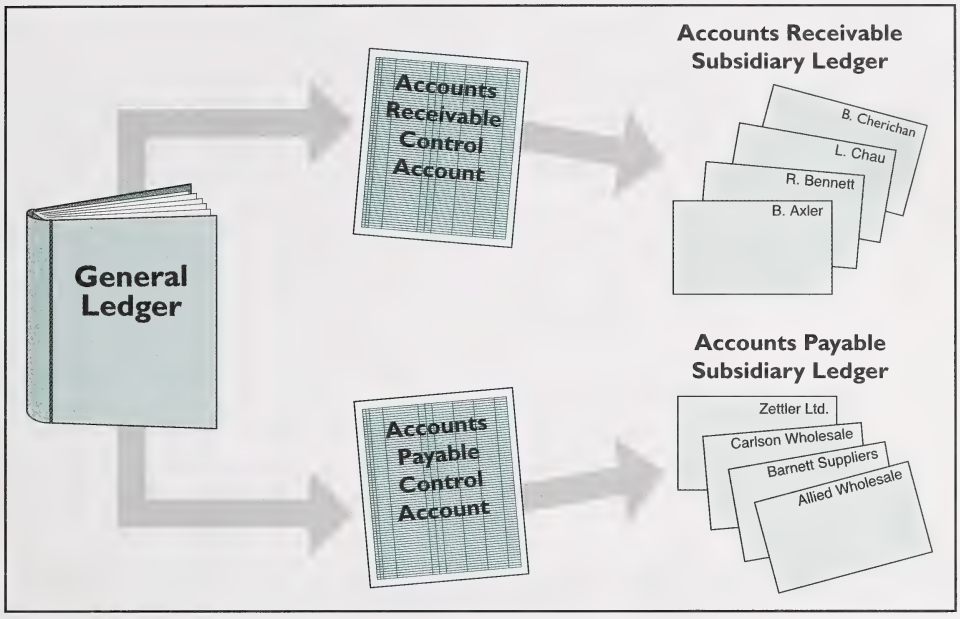
accounts payable ledger: *a subsidiary ledger containing all the accounts payable accounts and their individual balances*

accounts receivable control account: *a single account in the general ledger that shows the total amount due from all customers*

accounts payable control account: *a single account in the general ledger that shows the total amount owed to all creditors*

▲

The following diagram shows the relationship between the control accounts in the general ledger and the individual accounts in the subsidiary ledger.

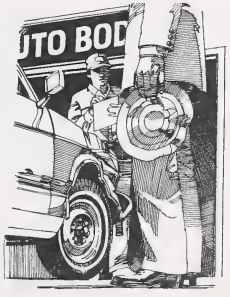


The accounts payable and accounts receivable subsidiary ledgers may be arranged in alphabetical order or be given a number and arranged in numerical order. If you have a credit card for a department store, the number on your credit card is the store's accounts receivable subsidiary ledger account number for you. The examples that follow show all subsidiary ledger accounts in alphabetical order.

Subsidiary ledgers meet the information needs of the company employees and the clients. These accounting records are not used in the preparation of financial statements and are not generally made available to persons outside of the business organization.

Ethics

1. Warren has been employed as the accounts receivable clerk at Reliable Auto Body for the past three years. He has been offered a position at a competing company, Foxfire Auto Body. In the job interview, the manager at Foxfire Auto Body indicated to Warren that a list of all the accounts receivable for Reliable Auto Body would be valuable to Foxfire. They could use the list to invite customers to attend a reception at the opening of the expanded business. Should Warren provide this list to Foxfire if he is hired?



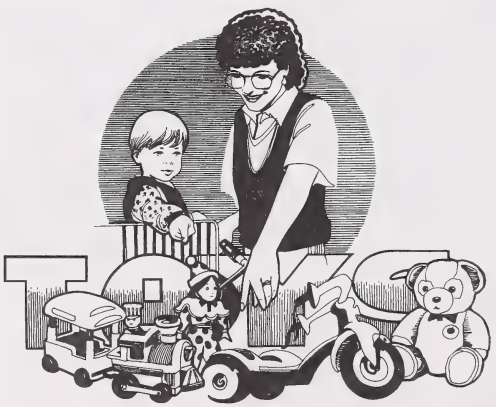
2. The trial balance for Ferdinand's Toy Store is given.

Ferdinand's Toy Store
TRIAL BALANCE
As at February 28, 20xx

Account Title	No.	Debit	Credit
Cash		*21 250.00*	
Accounts Receivable:			
R. Sanders		*1 360.00*	
S. Statler		*2 494.00*	
A. Tweedsmuir		*2 350.00*	
L. Vargity		*845.00*	
T. Wentworth		*1 210.00*	
Supplies		*2 854.00*	
Equipment		*21 450.00*	
Accounts Payable:			
Funland Supply House			*494.00*
Toyworld Wholesalers			*842.00*
World of Toys Wholesalers			*1 291.00*
Ferdinand Wolters, Capital			*14 011.00*
Ferdinand Wolters, Drawings		*4 500.00*	
Revenue			*49 250.00*
Utilities Expense		*2 475.00*	
Rent Expense		*1 900.00*	
Salary Expense		*3 200.00*	
Total		*65 888.00*	*65 888.00*

a. Calculate the total value of the accounts receivable accounts.
b. Calculate the total value of the accounts payable accounts.

3. Mr. Wolters of Ferdinand's Toy Store has decided to change over to using subsidiary ledgers and control accounts. What would be the general ledger trial balance amount?



4. Complete the following chart by placing a check mark (✔) in the appropriate boxes. The first one has been done for you.

Source Document	In the Subsidiary Ledger						In the General Ledger, the accounting entry will be									
	What subsidiary account is affected?		Will the account increase or decrease?		Will the account be debited or credited?		Bank		Accounts Receivable		Accounts Payable		Asset or Expense		Revenue	
	A/R	A/P	Incr	Decr	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
purchases invoice		✔	✔			✔						✔	✔			
cash receipt on account																
sales invoice																
cheque stub																

Compare your responses with those in the Appendix, Section 3: Activity 1.

The first activity has introduced you to subsidiary ledgers. The following activity will outline the steps in posting to subsidiary ledgers.

ACTIVITY 2

Posting to Subsidiary Ledgers Using the Five-Journal System

In Section 2 you were introduced to the five-journal system for journal entries. Posting from these journals to the subsidiary ledgers is slightly different than posting from the general journal to the accounts receivable and accounts payable accounts.

The Cash Receipts Journal

Each amount in the general credit column is posted to the appropriate account in the general ledger. The account number is placed in the Posting Reference column to show that this has been done. This is similar to the posting that occurred in the general journal.

Each amount in the accounts receivable credit column is posted to the customer accounts in the accounts receivable subsidiary ledger. A check mark (✔) is placed in the Post Reference column to show that this has been done.

Look at the cash receipts journal given.

The totals of the special columns (cash debit, sales credit, sales tax payable credit, and accounts receivable credit) are posted to the appropriate accounts in the general ledger. The account number is placed in parentheses at the foot of each column.

The items in the general credit column (e.g., interest income) are posted individually to these accounts. But what about the accounts receivable subsidiary ledger entries like R. Jamha and D. Riviere? These two accounts receivable accounts are posted to their individual subsidiary ledger accounts.

CASH RECEIPTS JOURNAL — Page 19

	Date		Account Title	Doc. No.	Post Ref.	Cash Debit	Sales Credit	Sales Tax Payable Credit	Accounts Receivable Credit	General Credit	
1	*20xx December*	*1*	✓	*650*	✓	*57.78*	*54.00*	*3.78*			1
2		*2*	*R. Jamha*	*122*	✓	*85.60*			*85.60*		2
3		*3*	*Interest Income*	*29*	*465*	*120.00*				*120.00*	3
4		*4*	✓	*651*	✓	*157.83*	*147.50*	*10.33*			4
5		*5*	*D. Riviere*	*123*	✓	*96.30*			*96.30*		5
16		*30*	✓	*654*	✓	*240.00*	*224.30*	*15.70*			16
17		*31*	*Total*	✓	✓	*6 434.65*	*4 675.00*	*327.25*	*1 092.40*	*340.00*	17
18						*(101)*	*(401)*	*(240)*	*(105)*	(✓)	18
19											19

Name *K. Heighington*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx December*	*1*		✓			*275.00*	1
2								2
3								3
4								4
5								5

Name *R. Jamha*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx December*	*1*		✓			*200.00*	1
2		*2*		*CR19*		*85.60*	*114.40*	2
3								3
4								4
5								5

Name *D. Riviere*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx December*	*1*		✓			*145.00*	1
2		*5*		*CR19*		*96.30*	*48.70*	2
3								3
4								4
5								5

Name *J. Worden*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx December*	*1*					*26.00*	1
2								2
3								3
4								4
5								5

Note: In the ledgers you are given the balances of each account at the end of the previous fiscal period. Normally, there would be many entries leading up to those balances.

1. What do you think CR19 in the Post. Ref. column of the subsidiary ledger means?

Compare your responses with those in the Appendix, Section 3: Activity 2.

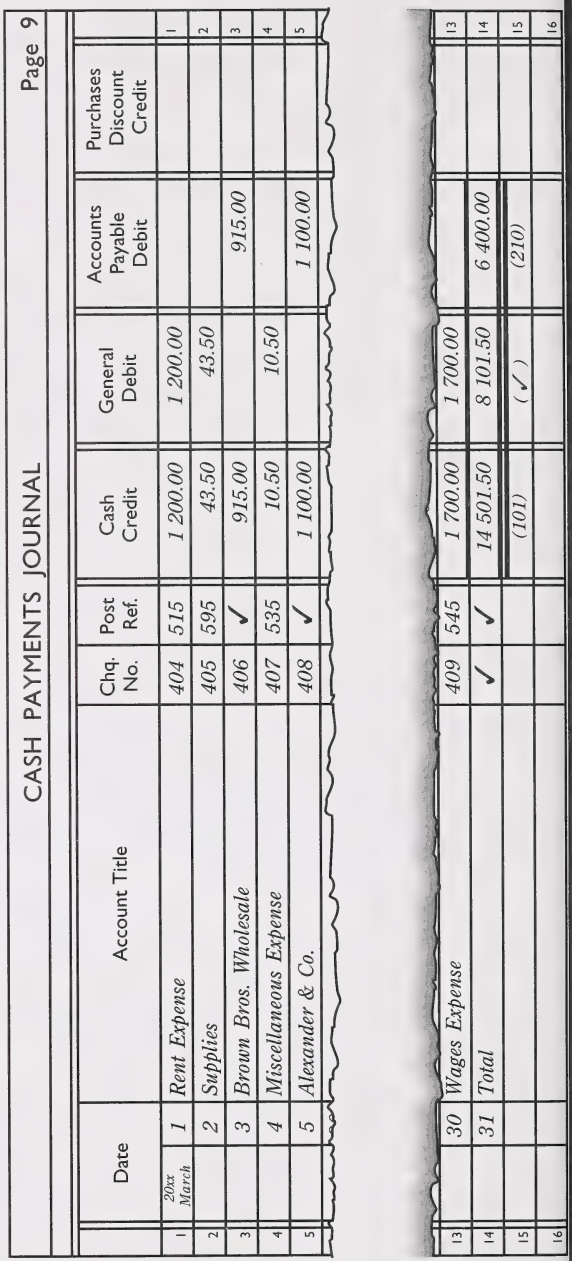
The Cash Payments Journal

The cash payments journal is posted in exactly the same way as the cash receipts journal, except the transactions would be posted to the accounts payable subsidiary ledger.

Look at the cash payments journal given.

The total of the special columns (cash credit, accounts payable debit, and purchases discount credit) are posted to the appropriate accounts.

The transactions in the general debit column are posted individually to the appropriate accounts (rent expense, supplies, miscellaneous expense, and wages expense). You still have the accounts payable accounts, like Brown Bros. Wholesale and Alexander & Co. These accounts need to be posted to the accounts payable subsidiary ledger.



CASH PAYMENTS JOURNAL — Page 9

	Date		Account Title	Chq. No.	Post Ref.	Cash Credit	General Debit	Accounts Payable Debit	Purchases Discount Credit	
1	20xx March	1	*Rent Expense*	404	515	1 200.00	1 200.00			1
2		2	*Supplies*	405	595	43.50	43.50			2
3		3	*Brown Bros. Wholesale*	406	✓	915.00		915.00		3
4		4	*Miscellaneous Expense*	407	535	10.50	10.50			4
5		5	*Alexander & Co.*	408	✓	1 100.00		1 100.00		5
13		30	*Wages Expense*	409	545	1 700.00	1 700.00			13
14		31	*Total*	✓	✓	14 501.50	8 101.50	6 400.00		14
15						(101)	(✓)	(210)		15
16										16

Name *Alexander & Co.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx March*	*1*					*1 242.10*	1
2		*5*		*CP9*	*1 100.00*		*142.10*	2
3								3
4								4
5								5

Name *Bennett Suppliers*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx March*	*1*					*1 075.40*	1
2								2
3								3
4								4
5								5

Name *Brown Bros. Wholesalers*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx March*	*1*					*1 095.50*	1
2		*3*		*CP9*	*915.00*		*180.50*	2
3								3
4								4
5								5

2. What do you think the CP9 means in the Post Reference column of the accounts payable subsidiary ledger?

Compare your responses with those in the Appendix, Section 3: Activity 2.

The Sales Journal

Each individual amount in the column is posted to a customer's account in the accounts receivable subsidiary ledger.

SALES JOURNAL — Page 23

	Date		Account Debited	Inv. No.	Post Ref.	Accounts Receivable Debit	Sales Credit	Sales Tax Payable Credit	
1	20xx April	1	B. Flynn	502	✓	437.63	409.00	28.63	1
2		2	R. Kangas	503	✓	860.28	804.00	56.28	2
3		3	R. Peters	504	✓	1 529.03	1 429.00	100.03	3
22		28	B. Chang	525	✓	647.35	605.00	42.35	22
23		29	C. Carollas	526	✓	137.50	128.50	9.00	23
24		30	Total	✓	✓	31 527.02	29 464.50	2 062.52	24
25						(105)	(401)	(240)	25
26									26

3. Open accounts receivable subsidiary ledger accounts for each of the accounts listed in the previous sales journal. Make sure that you put the accounts in **alphabetical order**.

   Post the transactions in the sales journal to the accounts receivable subsidiary ledger that follows. The first one has been completed for you.

Name *C. Carollas*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	20xx April	29		S23	137.50		137.50	1
2								2
3								3
4								4
5								5

Name

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1								1
2								2
3								3
4								4
5								5

Name

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1								1
2								2
3								3
4								4
5								5

Name

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1								1
2								2
3								3
4								4
5								5

Name

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1								1
2								2
3								3
4								4
5								5

Compare your responses with those in the Appendix, Section 3: Activity 2.

The Purchases Journal

The purchases journal is posted in a similar fashion to the sales journal. The total is posted as a debit to the purchases account and as a credit to the accounts payable account. Individual amounts in the column are posted to the accounts payable subsidiary ledger.

Look at the following purchases journal.

PURCHASES JOURNAL — Page 9

	Date		Account Credited	Post Ref.	Purchases Dr./Accts. Payable Cr.	
1	*20xx December*	*1*	*Brown Bros. Wholesale*	✓	*466.36*	1
2		*2*	*Acme Wholesalers Ltd.*	✓	*447.75*	2
3		*3*	*Hamilton Wholesale Ltd.*	✓	*620.64*	3
25		*30*	*Acme Wholesalers Ltd.*	✓	*228.40*	25
26		*31*	*Total*	✓	*4 329.52*	26
27					*(501) (201)*	27
28						28

4. Post the coloured amounts in the previous purchases journal to the following accounts payable subsidiary ledger. Use the posting reference P9.

Name *Acme Wholesalers Ltd.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1								1
2								2
3								3
4								4
5								5

Name *Brown Bros. Wholesale*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1								1
2								2
3								3
4								4
5								5

Name *Hamilton Wholesale Ltd.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1								1
2								2
3								3
4								4
5								5

Compare your responses with those in the Appendix, Section 3: Activity 2.

Each amount in the journal is posted to the general ledger. In addition, each accounts receivable and accounts payable must be posted to a subsidiary ledger if they appear in the general journal. Each entry will show two posting references: one to show that the amount has been posted to the general ledger and another to show the same amount posted to a subsidiary ledger. The following general journal shows this. Notice that the amounts for J. Smith and for Acme Co. have been posted twice. The double posting references are separated by a diagonal line.

GENERAL JOURNAL Page 2

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx July*	*1*	*Sales Returns and Allowances*	*401.1*	*47.00*		1
2			*Accounts Receivable, J. Smith*	*✓/114*		*47.00*	2
3			*Return of merchandise sold*				3
4		*2*	*Accounts Payable, Acme Co.*	*✓/201*	*320.00*		4
5			*Purchases Returns and Allowances*	*501.1*		*320.00*	5
6			*Return of merchandise purchased*				
7							

Posting References in the Ledger

When special journals are used, the ledger accounts should indicate which journal the debit or credit posting came from. An example of each type of posting reference is shown here and in the ledger on the next page.

CR23 represents page 23 of the cash receipts journal.
S1 represents page 1 of the sales journal.
S5 represents page 5 of the sales journal.
CP5 represents page 5 of the cash payments journal.
G7 represents page 7 of the general journal.

Name *R. Appleby*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx August*	*1*					*400.00*	1
2		*3*		*CR23*		*400.00*	*0.00*	2
3		*7*		*S1*	*250.00*		*250.00*	3
4		*9*		*S5*	*300.00*		*550.00*	4
5		*11*		*CP5*	*100.00*		*650.00*	5
6		*15*		*G7*	*50.00*		*700.00*	6
7								7

5. Northwest Sales Company uses a sales journal, a purchases journal, a cash payments journal, a cash receipts journal, and a general journal. It also uses a general ledger and subsidiary ledgers.

   A trial balance, as at February 1 of the current year, for Northwest Sales Company is as follows:

Northwest Sales Company
TRIAL BALANCE
As at February 1, 20xx

Account Title	No.	Debit	Credit
Cash	*111*	*36 300.00*	
Accounts Receivable	*114*	*2 209.00*	
Merchandise Inventory	*121*	*8 350.00*	
Supplies	*132*	*491.00*	
Prepaid Insurance	*134*	*766.00*	
Store Equipment	*141*	*1 105.00*	
Accounts Payable	*202*		*1 660.00*
Sales Tax Payable	*210*		
J. Rice, Capital	*301*		*47 561.00*
J. Rice, Drawings	*302*		
Income Summary	*303*		
Sales	*401*		
Sales Returns and Allowances	*401.1*		
Purchases	*501*		
Purchases Discounts	*501.1*		
Rent Expense	*603*		
Salaries Expense	*608*		
Miscellaneous Expense	*633*		
Total		*49 221.00*	*49 221.00*

The accounts and balances in the subsidiary ledgers are as follows:

Accounts Receivable		Accounts Payable	
A. Anderson	650.00	Acme Co. Ltd.	760.00
D. Clark	28.00	Barker Bros.	390.00
J. Evans	144.00	Globe Manufacturing Ltd.	141.00
S. Grant	76.00	Western Supply Co.	265.00
L. Isaacson	91.00	Willard Ltd.	104.00
M. Kelly	850.00	Total	1 660.00
B. Potter	370.00		
Total	2 209.00		

a. Open all accounts in the trial balance, in the list of accounts receivable, and in the list of accounts payable in the appropriate ledgers. Enter the balance if there is one.

General Ledger

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Account Account No.

	Date	Item	Post Ref.	Debit	Credit	DR CR	Balance	
1								1
2								2
3								3
4								4
5								5

Name

	Date	Item	Post Ref.	Debit	Credit	Debit Balance	
1							1
2							2
3							3
4							4
5							5

Name

	Date	Item	Post Ref.	Debit	Credit	Debit Balance	
1							1
2							2
3							3
4							4
5							5

Name

	Date	Item	Post Ref.	Debit	Credit	Debit Balance	
1							1
2							2
3							3
4							4
5							5
6							6

Name

	Date	Item	Post Ref.	Debit	Credit	Debit Balance	
1							1
2							2
3							3
4							4
5							5

Name

	Date	Item	Post Ref.	Debit	Credit	Debit Balance	
1							1
2							2
3							3
4							4
5							5

Name

	Date	Item	Post Ref.	Debit	Credit	Debit Balance	
1							1
2							2
3							3
4							4
5							5

Name

	Date	Item	Post Ref.	Debit	Credit	Debit Balance	
1							1
2							2
3							3
4							4
5							5

Accounts Payable Ledger

Name

	Date	Item	Post Ref.	Debit	Credit	Credit Balance	
1							1
2							2
3							3
4							4
5							5
6							6

Name

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1								1
2								2
3								3
4								4
5								5

Name

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1								1
2								2
3								3
4								4
5								5

Name

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1								1
2								2
3								3
4								4
5								5

Name

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1								1
2								2
3								3
4								4
5								5

b. During the month of February 20xx, the following transactions were completed. All sales are subject to 7% sales tax. Journalize the transactions for the month of February in the special journals.

Feb. 2 Sold merchandise on account to S. Grant, $1250 plus sales tax of $87.50. Invoice #471

Paid the February rent, $1800. Cheque #101

Sold merchandise on account to B. Potter, $1500 plus sales tax. Invoice #472

3 Purchased merchandise on account from Acme Co. Ltd., $2800.

4 Issued a cheque for $185 to The Journal in payment of advertising. Cheque #102

5 Bought new store equipment for $650 cash. Cheque #103

7 Cash sales for the week, $1200 plus sales tax. Cash register tape #641

9 Sold some old store equipment for $140 cash. Memo #9-1

10 Sold merchandise on account to A. Anderson, $800 plus tax. Invoice #473

Purchased merchandise on account from Globe Manufacturing Ltd., $1850.

Sent a cheque to Acme Co. Ltd. in full payment of the February 3 purchase. Cheque #104

11 Owner withdrew $500 for personal use. Cheque #105

12 Received a cheque from S. Grant as payment on account, $500. Receipt #701

Received a cheque from B. Potter for $850 as partial payment on account. Receipt #702

14 Cash sales for the week, $1450 plus tax. Cash register tape #642

15 Sold merchandise on account to A. Anderson, $900 plus tax. Invoice #474

Paid the salaries for the first half of the month, $1600. Memo #9-2

17 Sold merchandise on account to B. Potter, $1300 plus tax. Invoice #475

Purchased merchandise from Barker Bros. on account, $3500.

20 Received payment on account from A. Anderson, $800. Receipt #703

21 Cash sales for the week, $1550 plus sales tax. Cash register tape #643

22 J. Rice, the owner, took $750 worth of merchandise home for personal use. Memo #9-3

Bought supplies for $60 cash. Cheque #106

Bought merchandise for $1250 cash. Cheque #107

Bought merchandise on account from Acme Co. Ltd., $2650.

23 Received a payment on account from A. Anderson, $1000. Receipt #704

Sent a cheque to Barker Bros. for payment on account, $3150. Cheque #108

25 Sold merchandise on account to S. Grant, $1175 plus tax. Invoice #476

27 J. Rice, the owner, invested an additional $5000 in the business. Receipt #705

28 Mailed a cheque for $141 to Acme Co. Ltd. as payment on account. Cheque #109.

Paid $1650 to pay month-end salaries to part-time staff. Memo #9-4.

Cash sales for the week, $2225 plus tax. Cash register tape #644

CASH RECEIPTS JOURNAL Page 19

	Date		Account Title	Doc. No.	Post Ref.	Cash Debit	Sales Credit	Sales Tax Payable Credit	Accounts Receivable Credit	General Credit	
1											1
2											2
3											3
4											4
5											5
6											6
7											7
8											8
9											9
10											10
11											11
12											12
13											13
14											14
15											15

CASH PAYMENTS JOURNAL

Page 9

	Date		Account Title	Chq. No.	Post Ref.	Cash Credit	General Debit	Accounts Payable Debit	Purchases Discount Credit	
1										1
2										2
3										3
4										4
5										5
6										6
7										7
8										8
9										9
10										10
11										11
12										12
13										13
14										14
15										15

GENERAL JOURNAL — Page 11

	Date	Account Title	Post Ref.	Debit	Credit	
1						1
2						2
3						3
4						4
5						5

SALES JOURNAL — Page 23

	Date	Account Debited	Inv. No.	Post Ref.	Accounts Receivable Debit	Sales Credit	Sales Tax Payable Credit	
1								1
2								2
3								3
4								4
5								5
6								6
7								7
8								8
9								9
10								10

PURCHASES JOURNAL — Page 9

	Date	Account Credited	Post Ref.	Purchases Dr./Accts. Payable Cr.	
1					1
2					2
3					3
4					4
5					5
6					6
7					7
8					8

c. Prove each special journal. The general journal does not require a proof as there is only one entry.

d. Post the journals to the appropriate ledgers.

Order of Posting of the Special Journals

Items that affect a customer or a creditor account should be posted daily. Items affecting the general ledger accounts may be posted weekly or as time permits.

In order to avoid, as much as possible, any negative balances in the accounts, the journals should be posted in this order: sales journal, purchases journal, general journal, cash receipts journal, cash payments journal.

You may occasionally have negative balances in some accounts during posting. Do not worry about them. When all the posting is complete, the account balances will be normal.

e. Prepare a trial balance of the general ledger on the form provided.

_____

_____

_____

Account Title	No.	Debit	Credit

Compare your responses with those in the Appendix, Section 3: Activity 2.

In Activity 2 you practised journalizing transactions using the five-journal system and posting to the general ledger and the subsidiary ledgers. In Activity 3 you will be introduced to the schedule of accounts receivable and the schedule of accounts payable.

ACTIVITY 3

Schedules of Accounts Receivable and Accounts Payable

In question 5 of Activity 2, the trial balance for Northwest Sales Company indicated that the general ledger was in balance. However, the subsidiary ledgers for accounts receivable and accounts payable were not proven to be in agreement with the controlling account in the general ledger.

▼
schedule of accounts receivable: *a list of the balances of the customers' accounts*
▲

When all posting is complete, a list of all the customer accounts is made. This is called a **schedule of accounts receivable.** The total of all the subsidiary accounts receivable should be equal to the accounts receivable control account in the general ledger.

The Rite Company
SCHEDULE OF ACCOUNTS RECEIVABLE
As at June 30, 20xx

L. Green	*100.00*	
J. Miller	*300.00*	
A. Winters	*150.00*	
Total Accounts Receivable		*550.00*

Compare the total accounts receivable with the accounts receivable account in the general ledger.

Account *Accounts Receivable* Account No. *114*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx June*	*1*		✓			*DR*	*1 290.00*	1
2		*30*		*S19*	*800.00*		*DR*	*2 090.00*	2
3		*30*		*CR4*		*1 540.00*	*DR*	*550.00*	3
4									4
5									5

schedule of accounts payable: *a list of the balances of the creditors' accounts*

A similar list is made for the creditor accounts. This is called a **schedule of accounts payable**.

The Rite Company
SCHEDULE OF ACCOUNTS PAYABLE
As at June 30, 20xx

Boyle Wholesale Ltd.	*200.00*	
Triple Nine Corp.	*100.00*	
Total Accounts Payable		*300.00*

Compare the total accounts payable with the accounts payable account in the general ledger.

Account *Accounts Payable* Account No. *202*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx June*	*1*		✓			*CR*	*650.00*	1
2		*30*		*P4*		*749.00*	*CR*	*1 399.00*	2
3		*30*		*CP11*	*1 099.00*		*CR*	*300.00*	3
4									4
5									5

Accounts that have a zero balance are not required to be listed in the schedules when they are prepared manually. However, when a computer program is used (e.g., *Simply Accounting*™), the computer program prints out all the accounts and their balances, even if they have zero balances.

Once all the posting is completed, the accounts receivable control account balance will equal the total of all the customer accounts; and the accounts payable control account balance will equal the total of all the creditor accounts.

1. Use the ledgers that you posted in question 5 of Activity 2 to complete the following steps.

   a. Prepare a schedule of accounts receivable for Northwest Sales Company as at February 28, 20xx.

b. Prepare a schedule of accounts payable for Northwest Sales Company as at February 28, 20xx.

Note: Don't forget to compare the totals of your schedules with the appropriate general ledger account balances to ensure accuracy.

Compare your responses with those in the Appendix, Section 3: Activity 3.

Completing the schedules for accounts receivable and accounts payable ensures that the subsidiary ledgers agree with the controlling account in the general ledger.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.

Extra Help

Using subsidiary ledgers in financial management is similar to sorting clothing in your closet at home. If you had one large box where you stored all your clothing—socks, underwear, jackets, shirts, jeans, shoes—the advantage would be that everything would be in one place. This concept is similar to the concept of the general journal. Everything is there, but finding a particular item may be a problem.

If you place your underwear and socks in one drawer, and put sweaters, jeans, and shirts in the closet, you will be able to find a pair of socks or a particular shirt easily. Sorting clothes into drawers is similar to the concept of subsidiary ledgers, where all the accounts receivable are pulled off into one area and the accounts payable are pulled off into another area.

The controlling accounts—accounts receivable and accounts payable—provide a total summary of what is contained in that subsidiary account.

A business can journalize and post any time it wants depending on the workload. A very common sequence which keeps the records up-to-date follows:

1. Journalize all transactions daily.
2. Post all items in the general debit and credit columns daily.
3. Post all items in the accounts receivable debit and credit columns daily.
4. Post all items in the accounts payable debit and credit columns daily.
5. Post the totals from the bottom of the special journals at the end of each month.

At the end of each month, after everything has been posted, a trial balance of the general ledger is prepared to ensure accuracy—proving that total debits equal total credits.

1. Sort the following list of accounts into accounts payable subsidiary ledgers and accounts receivable subsidiary ledgers. Make sure they are listed in alphabetical order.

- Arnold Wholesalers Ltd.
- Ferguson Suppliers Ltd.
- Rob Witherspoon
- Candace Anderson
- Willoughby Warehouse
- Rick Petersen
- Florence Witwicki
- Boston Supply Company
- Carerra Fuentes
- Kangas Wholesalers

2. Complete the following statements by filling in the blanks with the correct journal names.

a. A purchases invoice is recorded in the _____ journal.
b. A purchase for cash is recorded in the _____ journal.
c. A cheque received is recorded in the _____ journal.
d. A cheque written is recorded in the _____ journal.
e. A sale for cash is recorded in the _____ journal.
f. A sale on account is recorded in the _____ journal.

3. Why are the subsidiary ledgers kept in alphabetical order?

Compare your responses with those in the Appendix, Section 3: Extra Help.

Enrichment

You are the accounts receivable clerk and have been asked to find an error in the accounts receivable ledger.

The accounts receivable ledger cards appear on the following pages. The accounts receivable controlling account has a balance of $4669.

Name *A. Anderson*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*650.00*	1
2		*12*		*S1*	*800.00*		*1 450.00*	2
3		*15*		*S1*	*900.00*		*2 350.00*	3
4		*17*		*S1*		*150.00*	*2 200.00*	4
5		*20*		*S1*		*800.00*	*1 400.00*	5
6		*24*		*S1*		*1 000.00*	*400.00*	6
7								7

Name *D. Clark*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*28.00*	1
2								2
3								3
4								4

Name *J. Evans*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*144.00*	1
2								2
3								3
4								4

Name *S. Grant*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*76.00*	1
2		*2*		*S1*	*1 250.00*		*1 326.00*	2
3		*12*		*S1*		*500.00*	*826.00*	3
4		*25*		*S1*	*1 175.00*		*2 001.00*	4
5								5

Name *L. Isaacson*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*91.00*	1
2								2
3								3
4								4

Name *M. Kelly*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*850.00*	1
2								2
3								3
4								4

Name *B. Potter*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*370.00*	1
2		*2*		*S1*	*1 500.00*		*1 870.00*	2
3		*8*		*S1*		*400.00*	*1 470.00*	3
4		*12*		*S1*		*850.00*	*620.00*	4
5		*18*		*S1*	*1 300.00*		*1 920.00*	5
6								6

1. What is the current balance in the accounts receivable ledger?

2. What could account for the balance being incorrect?

3. List the steps you would use to correct the error.

Compare your responses with those in the Appendix, Section 3: Enrichment.

CONCLUSION

In this section you were introduced to Gaylord, a fruit stand owner, who required help organizing the books for his business. This section showed you a method of organization, which Gaylord can use, involving subsidiary ledgers. You were shown how to establish subsidiary ledgers for accounts receivable and accounts payable for a merchandising business. You also studied how to post to the subsidiary ledgers and prepare schedules of accounts receivable and accounts payable.

After completing this section, do you agree the subsidiary ledgers help businesses like Gaylord's keep accurate, up-to-date financial records?

ASSIGNMENT

Turn to Assignment Booklet B and do the assignment for Section 3.

S • U • M • M • A • R • Y

This course has introduced you to the basic knowledge and skills necessary in establishing an accounting system for a merchandising business.

Section 1 introduced you to the various aspects of a merchandising business: the importance of inventory control, journal transactions specific to a merchandising business, and specialty transactions such as GST and sales tax.

Section 2 compared the advantages and disadvantages of various journals and you began recording business transaction in special journals—purchases journals, cash receipts journals, cash payments journals, sales journals and general journals.

Section 3 examined subsidiary ledgers—how they are established and how posting occurs using subsidiary ledgers. You also discovered how to prepare schedules of accounts payable and accounts receivable.

Should you wish to continue in Financial Management by completing the accounting cycle for a merchandising business, you are invited to study FIN 2030.

ASSIGNMENT

Turn to Assignment Booklet C and do the Final Course Assignment.

COURSE SURVEY FOR FINANCIAL MANAGEMENT 2020

fter you have completed the assignments in this course, please fill out this questionnaire and mail it to the ddress given on the last page. This course is designed in a new distance learning format, so we are interested n your responses. Your constructive comments will be greatly appreciated, as future course revisions can then ncorporate any necessary improvements.

Name _____ Age ❑ under 19 ❑ 19 to 40 ❑ over 40

Address _____ File No. _____

_____ Date _____

_____

Design

1. The Student Module Booklet contains a variety of self-assessed activities. Did you find it helpful to be able to check your work and have immediate feedback?

❑ Yes ❑ No If yes, explain.

_____

_____

_____

2. Were the questions and directions easy to understand?

❑ Yes ❑ No If no, explain.

_____

_____

_____

3. Each section contains Follow-up Activities. Which type of Follow-up Activity did you choose?

   ❑ mainly Extra Help
   ❑ mainly Enrichment
   ❑ a variety
   ❑ none

   Did you find these activities beneficial?

   ❑ Yes ❑ No If no, explain.

   _____

   _____

4. Did you understand what was expected in the Assignment Booklet?

   ❑ Yes ❑ No If no, explain.

   _____

   _____

5. The course materials were designed to be completed by students working independently at a distance. Were you always aware of what you had to do?

   ❑ Yes ❑ No If no, provide details.

   _____

   _____

6. This distance learning course may include an assortment of drawings, photographs, and charts.

   a. Did you find the visuals in this course helpful?

      ❑ Yes ❑ No Comment on the lines below.

      _____

      _____

   b. Did you find the variety of visuals in this course motivating?

      ❑ Yes ❑ No Comment on the lines below.

      _____

      _____

7. Suggestions for audiocassette, videocassette, and computer activities may have been included in the course. Did you complete these media activities?

❑ Yes ❑ No Comment on the lines below.

_____

_____

Only students enrolled in a Junior High course need to complete the following question.

8. The Student Module Booklet may have directed you to work with your Teacher. How well did you work as a team?

Student's comments: _____

_____

_____

_____

Teacher's comments: _____

_____

_____

_____

Course Content

1. Was enough detailed information provided to help you learn the expected skills and objectives?

❑ Yes ❑ No Comment on the lines below.

_____

_____

2. Did you find the work load reasonable?

❑ Yes ❑ No If no, explain.

_____

_____

3. Did you have any difficulty with the reading level?

❑ Yes ❑ No Please comment.

4. How would you assess your general reading level?

❑ poor reader ❑ average reader ❑ good reader

5. Was the material presented clearly and with sufficient depth?

❑ Yes ❑ No If no, explain.

General

1. What did you like least about the course?

2. What did you like most about the course?

Additional Comments

Only students enrolled with the Alberta Distance Learning Centre need to complete the remaining questions.

1. Did you contact the Alberta Distance Learning Centre for help or information while doing your course?

   ❑ Yes ❑ No If yes, approximately how many times? _____

   Did you find the staff helpful?

   ❑ Yes ❑ No If no, explain.

   _____

   _____

2. Were you able to fax any of your assignment response pages?

   ❑ Yes ❑ No If yes, comment on the value of being able to do this.

   _____

   _____

3. If you mailed your assignment response pages, how long did it take for their return?

   _____

   _____

4. Was the feedback you received from your correspondence or distance learning teacher helpful?

   ❑ Yes ❑ No Please comment.

   _____

   _____

   _____

   _____

Thanks for taking the time to complete this questionnaire. Your feedback is important to us. Please return this questionnaire to the address on the right.

If you are enrolled at the Alberta Distance Learning Centre and will be mailing your Assignment Booklet to ADLC, you may return this questionnaire with the Assignment Booklet.

Instructional Design and Development
Learning Technologies Branch
Box 4000
Barrhead, Alberta
T7N 1P4

APPENDIX

Glossary
Suggested Answers

Glossary

accounts payable control account: a single account in the general ledger that shows the total amount owed to all creditors

accounts payable ledger: a subsidiary ledger containing all the accounts payable accounts and their individual balances

accounts receivable control account: a single account in the general ledger that shows the total amount due from all customers

accounts receivable ledger: a subsidiary ledger containing all the accounts receivable accounts and their individual balances

cash (sales) discount: a discount provided by a business to encourage early payment of accounts

cash payments journal: a journal used when cash is paid out by the business for any reason; also called the cash disbursements journal

cash receipts journal: a journal used when cash is received for any reason by the business

five-journal system: a system where five separate journals are used, each journal for specific transactions

These journals are the cash receipts journal, sales journal, cash payments journal, purchases journal, and the general journal.

general journal: a two-column book in which accounting entries are recorded in the order in which they occur

Sometimes it is called the book of original entry.

Goods and Services Tax (GST): a 7% federal tax, introduced in 1991, on all taxable goods and services in Canada

gross profit: the excess of the net sales over the cost of the merchandise sold

GST charged on sales account: a liability account that accumulates the GST charged on sales

GST paid on purchases account: a contra account (in this case a liability account with a debit balance) that accumulates the GST paid by the business

inventory: the quantity of stock on hand that a business has for sale

inventory shrinkage: loss of inventory caused by breakage, spoilage, employee theft, and shoplifting

merchandise: goods that are purchased for resale

merchandise inventory account: an asset account that records the amount of inventory on hand

merchandising business: a business that earns its revenue by purchasing merchandise from a supplier and selling it to a customer

perpetual inventory system: a system in which inventory is perpetually updated, usually using a computer terminal and a barcode scanner

physical inventory count: unsold merchandise physically counted and valued (at cost price)

purchases account: an account where the merchandise inventory of a business is recorded

This account is found in the expense section of the ledger.

purchases discount: a cash incentive offered by suppliers to encourage early payment of accounts

purchases journal: a journal used when merchandise is purchased from a supplier on account

purchases returns and allowances account: a companion account to purchases where returns and allowances are recorded

sales journal: a journal used when merchandise is sold to a customer on account

sales returns and allowances account: a companion account to sales where returns and allowances are recorded

sales tax payable account: a liability account that is used to collect the sales tax paid by customers

schedule of accounts payable: a list of the balances of the creditors' accounts

Its total should be equal to the balance of the accounts payable account in the general ledger.

schedule of accounts receivable: a list of the balances of the customers' accounts

Its total should be equal to the balance of the accounts receivable account in the general ledger.

synoptic journal: a multi-columned journal with a number of special columns and two general columns; also known as a combination journal or a multi-columnar journal

Universal Product Code (UPC): a code printed on consumer products that is readable by a barcode scanner

Suggested Answers

Section 1: Activity 1

1.

Business	Service	Merchandising	Service and Merchandising
Accounting Firm	✔		
Barber Shop			✔
Hardware Store		✔	
Computer Sales and Service			✔
Clothing Store		✔	

2. Answers will vary. Sample answers are given.

a. a grocery store: groceries, prescription and over-the-counter drugs, flowers.
b. a gas station: gas, oil, (sometimes there is a convenience store)
c. a sporting goods store: sporting goods, clothing
d. a fast food restaurant: hamburgers, soft drinks, pizza
e. a department store: all department store items

Section 1: Activity 2

1.

The Jean Joint
INVENTORY COUNT
For the Month Ended January 31, 20xx

Beginning Inventory		179
Plus: Purchases		
January 1	100	
January 17	65	165
Total Inventory Available		344
Less: Ending Inventory		94
Merchandise Sold		250

Note: Inventory amounts are in individual units.

2. $250 \times 50 = 12\,500$

   The total value of the merchandise sold in January was $12 500.

3. Diandra ignored the Cost Principle, which states that the accounting for purchases must be at their cost price. This is the figure that appears on the invoice for the transaction. The value recorded in the accounts for an asset is not changed later if the value of the asset changes.

4. $\frac{4200}{50} = 84$

   There are 84 units available for sale.

5. a.

TORSTEN'S KITE COMPANY

	Year 1 (# of items)	Year 2 (# of items)	Year 3 (# of items)
Beginning Inventory	200	400	100
+ Merchandise Purchased	600	700	750
= Merchandise Available for Sale	800	1100	850
– Merchandise Sold	400	1000	800
= Ending Inventory	400	100	50

   b. $800 \times 7 = 5600$

   The cost of merchandise sold throughout Year 3 is $5600.

6.

Sales	Beginning Inventory	Purchases	Ending Inventory	Cost of Merchandise Sold	Gross Profit
185 000.00	30 000.00	72 500.00	32 500.00	70 000.00	115 000.00
779 000.00	142 000.00	49 400.00	101 000.00	90 400.00	688 600.00
174 000.00	34 700.00	89 200.00	41 400.00	82 500.00	91 500.00
249 700.00	49 300.00	119 200.00	47 200.00	121 300.00	128 400.00
302 900.00	104 600.00	81 200.00	61 300.00	124 500.00	178 400.00

7.

Item	Purchases Account
envelopes	not included
flowers	included
potting soil	included
cleaning products	not included
plant stands	included
gift cards	included
coffee pot	not included

Section 1: Activity 3

1.

GENERAL JOURNAL — Page 13

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx June*	*13*	*Cash*		*939.60*		1
2			*Sales*			*870.00*	2
3			*Sales Tax Payable*			*69.60*	3
4			*Cash sale of merchandise*				4
5		*14*	*Accounts Receivable, R. Friedel*		*511.92*		5
6			*Sales*			*474.00*	6
7			*Sales Tax Payable*			*37.92*	7
8			*Sold merchandise on account*				8
9		*14*	*Accounts Receivable, H. Hispick*		*4 097.52*		9
10			*Sales*			*3 794.00*	10
11			*Sales Tax Payable*			*303.52*	11
12			*Sold merchandise on account*				12
13		*15*	*Cash*		*4 744.44*		13
14			*Sales*			*4 393.00*	14
15			*Sales Tax Payable*			*351.44*	15
16			*Cash sale of merchandise*				16
17		*15*	*Cash*		*3 163.32*		17
18			*Sales*			*2 929.00*	18
19			*Sales Tax Payable*			*234.32*	19
20			*Cash sale of merchandise*				20

2.

GST Charged on Sales	14 029.50
GST Paid on Purchases	10 394.00
Difference	3 635.50

The difference, $3635.50, must be remitted to the federal government.

3.

Sale Price	Taxes (8% Sales Tax and 7% GST)	Total Sale	Discount	Discounted Total
325.00	48.75	373.75	7.48	366.27
1 490.00	223.50	1 713.50	34.27	1 679.23
7 480.00	1 122.00	8 602.00	172.04	8 429.96
1 148.00	172.20	1 320.20	26.40	1 293.80
4 750.00	712.50	5 462.50	109.25	5 353.25

4.

GENERAL JOURNAL — Page 27

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx June*	*1*	*Purchases*		*1 200.00*		1
2			*Accounts Payable, Industrial Supply*			*1 200.00*	2
3			*Bought merchandise on account*				3
4		*7*	*Accounts Payable, Industrial Supply*		*1 200.00*		4
5			*Cash*			*1 176.00*	5
6			*Purchases Discount*			*24.00*	6
7			*Made payment on account*				7

5. A sales returns and allowances account gives the business owner more information about the actual sales and reasons for returns. If an accountant wanted to know the exact amount of sales returns and allowances in a month, the figure would be available immediately.

Section 1: Follow-Up Activities

Extra Help

1. Henrietta should consider where Done-Rite Meats will store this extra inventory, how long it will stay fresh, and if they have enough customers to purchase the meat and make it worthwhile. Perhaps the company could advertise a meat sale to increase sales.

2. Holding a sale would reduce the amount of stock in the business, meaning that there would be less to count. This would speed up the counting process and save the company money.

3.

Column A	Column B	
a. gross profit	**d**	loss of inventory due to breakage, spoilage, employee theft, or shoplifting
b. GST	**j**	a companion account to sales where returns are recorded
c. sales tax payable	**e**	inventory record that is constantly updated
d. inventory shrinkage	**b**	a 7% federal tax introduced in 1991
e. perpetual inventory	**i**	a discount provided by a business to encourage early payment
f. UPC symbol	**g**	a record of the quantity of stock on hand that a business has for sale
g. inventory	**h**	goods that are purchased for resale
h. merchandise	**f**	a code printed on consumer products
i. sales discount	**c**	a liability account used to collect sales tax
j. sales returns and allowances	**a**	excess of net sales over the cost of the merchandise sold

Enrichment

1. a.

Sales	3 475 000
Less Sales Returns	54 000
Net Sales	3 421 000

The net sales is $3 421 000.

b.

Net Sales	3 421 000
Less Cost of Merchandise Sold	1 101 000
Gross Profit	2 320 000

The gross profit is $2 320 000.

2. a.

Beginning Inventory	1 600
Plus Purchases	34 000
Cost of Merchandise Available for Sale	35 600
Less Ending Inventory	2 500
Cost of Merchandise Sold	33 100

b. Martha May's is a small business where the managers are the owners of the business. Because they are in the store most days, they do not require a sophisticated inventory system to keep track of what is sold.

c. A large business needs to have current information about the cost and quantity of merchandise on hand. They need to report to shareholders, managers, and lending institutions. Martha May's system does not show which items relate to peak sales nor when the peak sales period occurs. She also does not know how much inventory shrinkage has occurred or when.

3. Answers will vary. Make sure that your report includes answers to the questions listed.

4. Answers will vary. Make sure that your report includes answers to the questions listed.

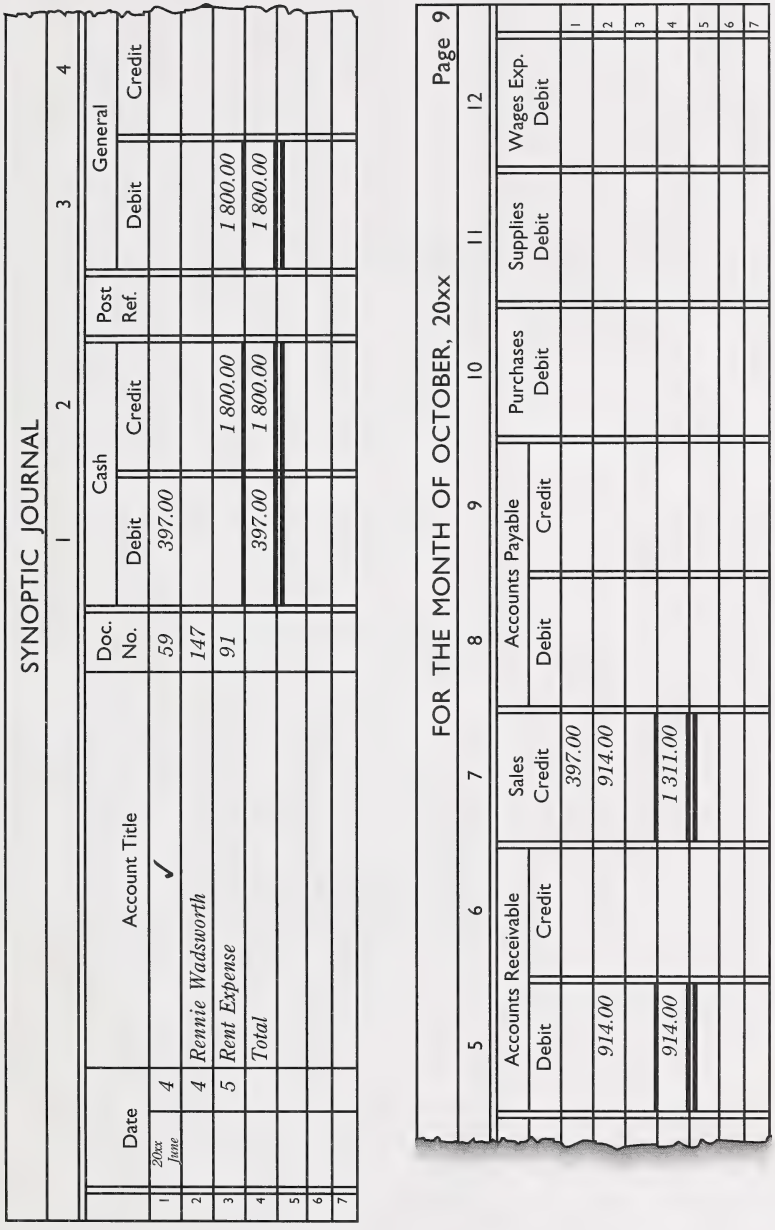
Section 2: Activity 1

1. a.

GENERAL JOURNAL — Page 9

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx June*	*4*	*Cash*		*397.00*		1
2			*Sales*			*397.00*	2
3			*Cash sales*				3
4		*4*	*Accounts Receivable, Rennie Wadsworth*		*914.00*		4
5			*Sales*			*914.00*	5
6			*Sales on account*				6
7		*5*	*Rent Expense*		*1 800.00*		7
8			*Cash*			*1 800.00*	8
9			*Paid rent for the month*				9

b.



SYNOPTIC JOURNAL

FOR THE MONTH OF OCTOBER, 20xx — Page 9

	Date		Account Title	Doc. No.	Cash		Post Ref.	General		Accounts Receivable		Sales	Accounts Payable		Purchases	Supplies	Wages Exp.	
					Debit	Credit		Debit	Credit	Debit	Credit	Credit	Debit	Credit	Debit	Debit	Debit	
			1	2				3		5	6	7	8	9	10	11	12	
1	20xx June	4	✓	59	397.00							397.00						1
2		4	Rennie Wadsworth	147						914.00		914.00						2
3		5	Rent Expense	91		1 800.00		1 800.00										3
4			Total		397.00	1 800.00		1 800.00		914.00		1 311.00						4
5																		5
6																		6
7																		7

2. a. The following columns are included in the debit balance.

- cash debit
- general debit
- accounts receivable debit
- accounts payable debit
- purchases debit
- supplies debit
- wages expense debit

b. The following columns are included in the credit balance.

- cash credit
- general credit
- accounts receivable credit
- sales credit
- accounts payable credit

3. The "running balance" lets the accountant know at all times if the journal is in balance. For example, if the accountant enters $397 in the cash debit column and $379 in the sales credit column, the error will be indicated immediately.

Section 2: Activity 2

1. The advantages to a business are that the accounting records of the business can be kept up to date, even in busy times, because the duties do not fall all to one individual. The separate journals always have a running total of what is occurring in the business.

   The advantages to an individual working in the system are that there are more opportunities for growth in the specialized system. An accounting clerk can work through each system, or specialize in a particular area, becoming an expert in that area.

2. CASH RECEIPTS JOURNAL

	Date		Account Title	Doc. No.	Post Ref.	Cash Debit	Sales Credit	Sales Tax Payable Credit	Accounts Receivable Credit	General Credit	
									Page 6		
1	*20xx April*	*4*	*V. Chang*	*144*		*230.00*			*230.00*		1
2		*7*	*Office Equipment*	*145*		*100.00*				*100.00*	2
3		*15*	✓	*409*		*1 712.00*	*1 600.00*	*112.00*			3
4		*17*	*K. Stalingard*	*146*		*150.00*			*150.00*		4
5		*23*	*R. Brinkley*	*147*		*50.00*			*50.00*		5
6		*28*	*F. Woloshyn*	*148*		*120.00*			*120.00*		6
7		*29*	*Interest Income*	*49*		*48.00*				*48.00*	7
8											8

3.

CASH PAYMENTS JOURNAL — Page 8

	Date		Account Title	Chq. No.	Post Ref.	Cash Credit	General Debit	Accounts Payable Debit	Purchases Discount Credit	
1	*20xx April*	*2*	*Office Equipment*	*841*		*850.00*	*850.00*			1
2		*6*	*Rent Expense*	*842*		*1 550.00*	*1 550.00*			2
3		*14*	*Acme Merchandising Ltd.*	*843*		*1 494.50*		*1 494.50*		3
4		*18*	*Advertising Expense*	*844*		*250.00*	*250.00*			4
5		*24*	*Alsask Co.*	*845*		*859.00*		*859.00*		5
6		*30*	*Wages Expense*	*846*		*3 500.00*	*3 500.00*			6
7										7

4.

SALES JOURNAL — Page 22

	Date		Account Debited	Inv. No.	Post Ref.	Accounts Receivable Debit	Sales Credit	Sales Tax Payable Credit	
1	*20xx April*	*1*	*V. Brinkley*	*701*		*347.75*	*325.00*	*22.75*	1
2		*9*	*D. O'Brien*	*702*		*321.00*	*300.00*	*21.00*	2
3		*13*	*D. Zappata*	*703*		*203.30*	*190.00*	*13.30*	3
4		*23*	*R. Chang*	*704*		*481.50*	*450.00*	*31.50*	4
5		*27*	*K. Silvester*	*705*		*963.00*	*900.00*	*63.00*	5
6		*30*	*J. Priestly*	*706*		*866.70*	*810.00*	*56.70*	6
7									7

5.

PURCHASES JOURNAL — Page 9

	Date		Account Credited	Post Ref.	Purchases Dr./Accts. Payable Cr.	
1	*20xx December*	*1*	*Brown Bros. Wholesale*		*466.36*	1
2		*2*	*Acme Wholesalers Ltd.*		*447.75*	2
3		*3*	*Hamilton Wholesale Ltd.*		*620.64*	3
4		*5*	*Bartlett Bros.*		*800.00*	4
5		*16*	*ABC Company*		*2 300.00*	5
6		*17*	*Omni Marketing Co.*		*1 250.00*	6
7						7

6.

GENERAL JOURNAL — Page 3

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx April*	*5*	*Supplies*		*350.00*		1
2			*Office Supply Co.*			*350.00*	2
3			*Bought supplies on account*				3
4		*10*	*Sales Returns and Allowances*		*25.00*		4
5			*P. Robinson*			*25.00*	5
6			*Customer returned merchandise*				6
7		*19*	*ABC Co.*		*125.00*		7
8			*Purchases Returns and Allowances*			*125.00*	8
9			*Returned damaged merchandise*				9
10		*27*	*Supplies*		*100.00*		10
11			*Purchases*			*100.00*	11
12			*To correct journal entry*				12
13		*28*	*Office Equipment*		*925.00*		13
14			*XYZ Co.*			*925.00*	14
15			*Bought equipment on credit*				15
16		*30*	*J. Paulson, Drawings*		*300.00*		16
17			*Purchases*			*300.00*	17
18			*Withdrew merchandise for personal use*				18
19							19

7.

Transactions	Cash Payments Journal	Cash Receipts Journal	Sales Journal	Purhcases Journal	General Journal
purchased merchandise on account				✔	
purchased merchandise for cash	✔				
purchased supplies for cash	✔				
purchased supplies on account					✔
sold merchandise for cash		✔			
sold merchandise on account			✔		
an error was made and a correction is required					✔
owner takes merchandise for personal use					✔

Extra Help

1.

SYNOPTIC JOURNAL

	Date		Account Title	Doc. No.	1 Cash Debit	2 Cash Credit	Post Ref.	3 General Debit	4 General Credit	5 Accounts Receivable Debit	6 Accounts Receivable Credit	7 Sales Credit	8 Accounts Payable Debit	9 Accounts Payable Credit	10 Purchases Debit	11 Supplies Debit	12 Wages Exp Debit	
	FOR THE MONTH OF JUNE, 20xx																	Page 17
1	20xx June	1	✓	T1	485.00							485.00						1
2		2	Supplies	491		385.00										385.00		2
3		2	Causeway Wholesale															3
4		3	✓	492		600.00									600.00			4
5		4	Arlo Lancer	701	609.50						609.50							5
6		4	D. Arthurs	702	444.29						444.29							6
7		5	Wages Expense	493		1 850.00											1 850.00	7
8		5	Total		1 538.79	2 835.00					1 053.79	485.00		849.50	1 449.50	385.00	1 850.00	8
9																		9
10																		10
11																		11

2. For the totals, refer to the answer to question 1. The journal proof is as follows:

Debits	Credits
1538.79	2835.00
1449.50	1053.79
385.00	485.00
1850.00	849.50
5223.29	5223.29

3. a. purchases journal
   b. cash payments journal
   c. sales journal
   d. purchases journal
   e. cash receipts journal

Enrichment

1. Answers will vary. Make sure your report includes answers to the questions listed.

2. a. Based on the graph, you need to be strongest in the use of a spreadsheet. The use of accounting packages is also emphasized.

   b. The use of graphics has very little emphasis.

Section 3: Activity 1

1. No, the list of accounts receivable is the property of Reliable Auto Body, and Warren would be breaching accounting ethics if he were to pass along this information.

2. a. The total value of the accounts receivable accounts is $8259.
   b. The total value of the accounts payable accounts is $2627.

3. The general ledger trial balance would be $65 888, the same as it is now.

4.

Source Document	In the Subsidiary Ledger						In the General Ledger, the accounting entry will be:									
	What subsidiary account is affected?		Will the account increase or decrease?		Will the account be debited or credited?		Bank		Accounts Receivable		Accounts Payable		Asset or Expense		Revenue	
	A/R	A/P	Incr	Decr	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
purchases invoice		✔	✔			✔						✔	✔			
cash receipt on account	✔			✔		✔	✔			✔						
sales invoice	✔		✔		✔				✔							✔
cheque stub		✔		✔	✔			✔			✔					

Section 3: Activity 2

1. CR19 stands for cash receipts journal, page 19.

2. CP9 stands for cash payments journal, page 9.

3. Accounts Receivable Ledger

Name *C. Carollas*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx April*	*29*		*S23*	*137.50*		*137.50*	1
2								2
3								3
4								4
5								5

Name *B. Chang*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx April*	*28*		*S23*	*647.35*		*647.35*	1
2								2
3								3
4								4
5								5

Name *B. Flynn*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx April*	*1*		*S23*	*437.63*		*437.63*	1
2								2
3								3
4								4
5								5

Name *R. Kangas*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx April*	*2*		*S23*	*860.28*		*860.28*	1
2								2
3								3
4								4
5								5

Name *R. Peters*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx April*	*3*		*S23*	*1 529.03*		*1 529.03*	1
2								2
3								3
4								4
5								5

4. Name *Acme Wholesalers Ltd.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx December*	*2*		*P9*		*447.75*	*447.75*	1
2								2
3								3
4								4
5								5

Name *Brown Bros. Wholesale*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx December*	*3*		*P9*		*466.36*	*466.36*	1
2								2
3								3
4								4
5								5

Name *Hamilton Wholesale Ltd.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx December*	*3*		*P9*		*620.64*	*620.64*	1
2								2
3								3
4								4
5								5

5. a.

General Ledger

Account *Cash* Account No. *111*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*DR*	*36 300.00*	1
2		*28*		*CR19*	*15 164.75*		*DR*	*51 464.75*	2
3		*28*		*CP9*		*13 786.00*	*DR*	*37 678.75*	3
4									4
5									5

Account *Accounts Receivable* Account No. *114*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*DR*	*2 209.00*	1
2		*28*		*S23*	*7 409.75*		*DR*	*9 618.75*	2
3		*28*		*CR19*		*3 150.00*	*DR*	*6 468.75*	3
4									4
5									5

Account *Merchandise Inventory* Account No. *121*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*DR*	*8 350.00*	1
2									2
3									3
4									4
5									5

Account *Supplies* Account No. *132*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*DR*	*491.00*	1
2		*22*		*CP9*	*60.00*		*DR*	*551.00*	2
3									3
4									4
5									5

Account *Prepaid Insurance* Account No. *134*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*DR*	*766.00*	1
2									2
3									3
4									4
5									5

Account *Store Equipment* Account No. *141*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*DR*	*1 105.00*	1
2		*5*		*CP9*	*650.00*		*DR*	*1 755.00*	2
3		*9*		*CR19*		*140.00*	*DR*	*1 615.00*	3
4									4
5									5

Account *Accounts Payable* Account No. *202*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*CR*	*1 660.00*	1
2		*28*		*P9*		*10 800.00*	*CR*	*12 460.00*	2
3		*28*		*CP9*	*6 091.00*		*CR*	*6 369.00*	3
4									4
5									5

Account *Sales Tax Payable* Account No. *210*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*CR*	*0.00*	1
2		*28*		*S23*		*484.75*	*CR*	*484.75*	2
3		*28*		*CR19*		*449.75*	*CR*	*934.50*	3
4									4
5									5

Account *J. Rice, Capital* Account No. *301*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*CR*	*47 561.00*	1
2		*27*		*CR19*		*5 000.00*	*CR*	*52 561.00*	2
3									3
4									4
5									5

Account *J. Rice, Drawings* Account No. *302*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*1*		✔			*DR*	*0.00*	1
2		*11*		*CP9*	*500.00*		*DR*	*500.00*	2
3		*22*		*G11*	*750.00*		*DR*	*1 250.00*	3
4									4
5									5

Account *Income Summary* Account No. *303*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account *Sales* Account No. *401*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*28*		*S23*		*6 925.00*	*CR*	*6 925.00*	1
2		*28*		*CR19*		*6 425.00*	*CR*	*13 350.00*	2
3									3
4									4
5									5

Account *Sales Returns and Allowances* Account No. *401.1*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account *Purchases* Account No. *501*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*22*		*CP9*	*1 250.00*		*DR*	*1 250.00*	1
2		*22*		*G11*		*750.00*	*DR*	*500.00*	2
3		*28*		*P9*	*10 800.00*		*DR*	*11 300.00*	3
4									4
5									5

Account *Purchases Discounts* Account No. *501.1*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1									1
2									2
3									3
4									4
5									5

Account *Rent Expense* Account No. *603*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*2*		*CP9*	*1 800.00*		*DR*	*1 800.00*	1
2									2
3									3
4									4
5									5

Account *Salaries Expense* Account No. *608*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*15*		*CP9*	*1 600.00*		*DR*	*1 600.00*	1
2		*28*		*CP9*	*1 650.00*		*DR*	*3 250.00*	2
3									3
4									4
5									5

Account *Miscellaneous Expense* Account No. *633*

	Date		Item	Post Ref.	Debit	Credit	DR CR	Balance	
1	*20xx February*	*4*		*CP9*	*185.00*		*DR*	*185.00*	1
2									2
3									3
4									4
5									5

Accounts Receivable Ledger

Name *A. Anderson*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*650.00*	1
2		*10*		*S23*	*856.00*		*1 506.00*	2
3		*15*		*S23*	*963.00*		*2 469.00*	3
4		*20*		*CR19*		*800.00*	*1 669.00*	4
5		*23*		*CR19*		*1 000.00*	*669.00*	5
6								6

Name *D. Clark*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*28.00*	1
2								2
3								3
4								4
5								5

Name *J. Evans*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*144.00*	1
2								2
3								3
4								4
5								5

Name *S. Grant*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*76.00*	1
2		*2*		*S23*	*1 337.50*		*1 413.50*	2
3		*12*		*CR19*		*500.00*	*913.50*	3
4		*25*		*S23*	*1 257.25*		*2 170.75*	4
5								5

Name *L. Isaacson*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*91.00*	1
2								2
3								3
4								4
5								5

Name *M. Kelly*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*850.00*	1
2								2
3								3
4								4
5								5

Name *B. Potter*

	Date		Item	Post Ref.	Debit	Credit	Debit Balance	
1	*20xx February*	*1*		✓			*370.00*	1
2		*2*		*S23*	*1 605.00*		*1 975.00*	2
3		*12*		*CR19*		*850.00*	*1 125.00*	3
4		*17*		*S23*	*1 391.00*		*2 516.00*	4
5								5

Accounts Payable Ledger

Name *Acme Co. Ltd.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx February*	*1*		✓			*760.00*	1
2		*3*		*P9*		*2 800.00*	*3 560.00*	2
3		*10*		*CP9*	*2 800.00*		*760.00*	3
4		*22*		*P9*		*2 650.00*	*3 410.00*	4
5		*28*		*CP*	*141.00*		*3 269.00*	5
6								6

Name *Barker Bros.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx February*	*1*		✓			*390.00*	1
2		*17*		*P9*		*3 500.00*	*3 890.00*	2
3		*23*		*CP*	*3 150.00*		*740.00*	3
4								4
5								5

Name *Globe Manufacturing Ltd.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx February*	*1*		✓			*141.00*	1
2		*10*		*P9*		*1 850.00*	*1 991.00*	2
3								3
4								4
5								5

Name *Western Supply Co.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx February*	*1*		✓			*265.00*	1
2								2
3								3
4								4
5								5

Name *Willard Ltd.*

	Date		Item	Post Ref.	Debit	Credit	Credit Balance	
1	*20xx February*	*1*		✓			*104.00*	1
2								2
3								3
4								4
5								5

b.

GENERAL JOURNAL Page 11

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx February*	*22*	*J. Rice, Drawings*	*302*	*750.00*		1
2			*Purchases*	*501*		*750.00*	2
3			*Owner withdrew merchandise. Memo 9–3*				3
4							4

SALES JOURNAL — Page 23

	Date		Account Debited	Inv. No.	Post Ref.	Accounts Receivable Debit	Sales Credit	Sales tax Payable Credit	
1	*20xx February*	*2*	*S. Grant*	*471*	✓	*1 337.50*	*1 250.00*	*87.50*	1
2		*2*	*B. Potter*	*472*	✓	*1 605.00*	*1 500.00*	*105.00*	2
3		*10*	*A. Anderson*	*473*	✓	*856.00*	*800.00*	*56.00*	3
4		*15*	*A. Anderson*	*474*	✓	*963.00*	*900.00*	*63.00*	4
5		*17*	*B. Potter*	*475*	✓	*1 391.00*	*1 300.00*	*91.00*	5
6		*25*	*S. Grant*	*476*	✓	*1 257.25*	*1 175.00*	*82.25*	6
7		*28*	*Total*			*7 409.75*	*6 925.00*	*484.75*	7
8						*(114)*	*(401)*	*(210)*	8
9									9

Journal Proof:

Debits	Credits
7 409.75	6 925.00
	484.75
	7 409.75

PURCHASES JOURNAL — Page 9

	Date		Account Credited	Post Ref.	Purchases Dr./Accts. Payable Cr.	
1	*20xx February*	*3*	*Acme Co. Ltd.*	✓	*2 800.00*	1
2		*10*	*Globe Manufacturing Ltd.*	✓	*1 850.00*	2
3		*17*	*Barker Bros.*	✓	*3 500.00*	3
4		*22*	*Acme Co. Ltd.*	✓	*2 650.00*	4
5		*28*	*Total*		*10 800.00*	5
6					*(501) (202)*	6
7						7
8						8

CASH RECEIPTS JOURNAL Page 19

	Date		Account Title	Doc. No.	Post Ref.	Cash Debit	Sales Credit	Sales Tax Payable Credit	Accounts Receivable Credit	General Credit	
1	*20xx February*	*7*	✓	*641*	✓	*1 284.00*	*1 200.00*	*84.00*			1
2		*9*	*Store Equipment*	*9–1*	*141*	*140.00*				*140.00*	2
3		*12*	*S. Grant*	*701*	✓	*500.00*			*500.00*		3
4		*12*	*B. Potter*	*702*	✓	*850.00*			*850.00*		4
5		*14*	✓	*642*	✓	*1 551.50*	*1 450.00*	*101.50*			5
6		*20*	*A. Anderson*	*703*	✓	*800.00*			*800.00*		6
7		*21*	✓	*643*	✓	*1 658.50*	*1 550.00*	*108.50*			7
8		*23*	*A. Anderson*	*704*	✓	*1 000.00*			*1 000.00*		8
9		*27*	*J. Rice, Capital*	*705*	*301*	*5 000.00*				*5 000.00*	9
10		*28*	✓	*644*	✓	*2 380.75*	*2 225.00*	*155.75*			10
11		*28*	*Total*			*15 164.75*	*6 425.00*	*449.75*	*3 150.00*	*5 140.00*	11
12						*(111)*	*(401)*	*(210)*	*(114)*	*(✓)*	12
13											13
14											14
15											15

Journal Proof:

Debits	Credits
15 164.75	6 425.00
	449.75
	3 150.00
	5 140.00
	15 164.75

c. Refer to the Journal Proofs at the bottom of each special journal.

d. Refer to the ledgers provided for 5.a.

CASH PAYMENTS JOURNAL — Page 9

	Date		Account Title	Chq. No.	Post Ref.	Cash Credit	General Debit	Accounts Payable Debit	Purchases Discount Credit	
1	*20xx February*	*2*	*Rent Expense*	*101*	*603*	*1 800.00*	*1 800.00*			1
2		*4*	*Miscellaneous Expense*	*102*	*633*	*185.00*	*185.00*			2
3		*5*	*Store Equipment*	*103*	*141*	*650.00*	*650.00*			3
4		*10*	*Acme Co. Ltd.*	*104*	✓	*2 800.00*		*2 800.00*		4
5		*11*	*J. Rice, Drawings*	*105*	*302*	*500.00*	*500.00*			5
6		*15*	*Salaries Expense*	*9–2*	*608*	*1 600.00*	*1 600.00*			6
7		*22*	*Supplies*	*106*	*132*	*60.00*	*60.00*			7
8		*22*	*Purchases*	*107*	*501*	*1 250.00*	*1 250.00*			8
9		*23*	*Barker Bros.*	*108*	✓	*3 150.00*		*3 150.00*		9
10		*28*	*Acme Co. Ltd.*	*109*	✓	*141.00*		*141.00*		10
11		*28*	*Salaries Expense*	*9–4*	*608*	*1 650.00*	*1 650.00*			11
12		*28*	*Total*			*13 786.00*	*7 695.00*	*6 091.00*		12
13						*(111)*	*(✓)*	*(202)*		13
14										14
15										15

Journal Proof:

Debits	Credits
7 695.00	13 786.00
6 091.00	
13 786.00	

e.

Northwest Sales Company
TRIAL BALANCE
As at February 28, 20xx

Account Title	No.	Debit	Credit
Cash	*111*	*37 678.75*	
Accounts Receivable	*114*	*6 468.75*	
Merchandise Inventory	*121*	*8 350.00*	
Supplies	*132*	*551.00*	
Prepaid Insurance	*134*	*766.00*	
Store Equipment	*141*	*1 615.00*	
Accounts Payable	*202*		*6 369.00*
Sales Tax Payable	*210*		*934.50*
J. Rice, Capital	*301*		*52 561.00*
J. Rice, Drawings	*302*	*1 250.00*	
Income Summary	*303*		
Sales	*401*		*13 350.00*
Sales Returns and Allowances	*401.1*		
Purchases	*501*	*11 300.00*	
Purchases Discounts	*501.1*		
Rent Expense	*603*	*1 800.00*	
Salaries Expense	*608*	*3 250.00*	
Miscellaneous Expense	*633*	*185.00*	
Total		*73 214.50*	*73 214.50*

Section 3: Activity 3

1. a.

Northwest Sales Company
SCHEDULE OF ACCOUNTS RECEIVABLE
As at February 28, 20xx

A. Anderson	*669.00*	
D. Clark	*28.00*	
J. Evans	*144.00*	
S. Grant	*2 170.75*	
L. Isaacson	*91.00*	
M. Kelly	*850.00*	
B. Potter	*2 516.00*	
Total Accounts Receivable		*6 468.75*

b.

Northwest Sales Company
SCHEDULE OF ACCOUNTS PAYABLE
As at February 28, 20xx

Acme Co. Ltd.	*3 269.00*	
Barker Bros.	*740.00*	
Globe Manufacturing Ltd.	*1 991.00*	
Western Supply Co.	*265.00*	
Willard Ltd.	*104.00*	
Total Accounts Payable		*6 369.00*

Section 3: Follow-up Activities

Extra Help

1. **Accounts Receivable**
   Candace Anderson
   Carerra Fuentes
   Rick Petersen
   Rob Witherspoon
   Florence Witwicki

   Accounts Payable
   Arnold Wholesalers Ltd.
   Boston Supply Company
   Ferguson Suppliers Ltd.
   Kangas Wholesalers
   Willoughby Warehouse

2. a. A purchases invoice is recorded in the **purchases** journal.

   b. A purchase for cash is recorded in the **cash receipts** journal.

   c. A cheque received is recorded in the **cash receipts** journal.

   d. A cheque written is recorded in the **cash payments** journal.

   e. A sale for cash is recorded in the **cash receipts** journal.

   f. A sale on account is recorded in the **sales** journal.

3. The subsidiary ledgers are kept in alphabetical order for ease of locating the ledger cards. In larger companies, an account number is given to each account in the accounts receivable.

Enrichment

1.
```
   400.00
    28.00
   144.00
  2001.00
    91.00
   850.00
  1920.00
  5434.00
```

The current balance in the accounts receivable ledger is $5434.

2. The following reasons could account for the incorrect balance.

    - a missing ledger card
    - an error in posting to the ledger

    The real reason is that the amount in M. Kelly's account was recorded as $850.00, when it should have been recorded as $85.00. (850.00 – 85.00 = 765.00)

3. You could take the following steps to correct the error.

    - Check the balance in each ledger card, and check the source.
    - Determine the exact amount that you are out and look for this amount.
    - Read the numbers in the schedule of accounts receivable.
    - Check to see if there is a ledger card missing.

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